

# Semiannual Report

DECEMBER 31, 2007

Waddell & Reed Advisors Dividend Income Fund

Waddell & Reed Advisors Energy Fund

Waddell & Reed Advisors Value Fund



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**This report is submitted for the general information of the shareholders of Waddell & Reed Advisors Select Funds, Inc. It is not authorized for distribution to prospective investors in the Funds unless preceded or accompanied by a current Waddell & Reed Advisors Select Funds, Inc. prospectus and current Fund performance information.**

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# President's Letter

*December 31, 2007*



DEAR SHAREHOLDER:

It's been a volatile six months for investors, with both good and bad news hitting close to home. The negatives can be found in daily headlines: a level of weakness in the U.S. housing market not seen since 1990–1991, a credit crunch driven by an implosion of the subprime mortgage market, record high energy and commodity prices, softness in corporate earnings and the increased possibility of a recession in the year ahead.

The positives are more subtle: exports are booming, the job market in the U.S. is healthy, farmers are enjoying great prices for corn, wheat and soybeans, alternative energy and related technologies are booming and tourists are flocking to our shores to take advantage of our cheap currency to shop. Corporate merger activity has also been fairly brisk.

Surprisingly, the long-term U.S. bond market has been remarkably strong. Despite the potential to trigger higher inflation and further weaken the U.S. dollar, since September the Federal Reserve has cut its short-term interest rate target three times. The Fed's goals have been to maintain market liquidity and allay fears banks have about lending both to each other and customers with anything less than perfect credit scores.

Enclosed is our report on Waddell & Reed Advisors Select Funds, Inc. operations for the six months ended December 31, 2007. For

the six-month period, the S&P 500 Index fell 1.37 percent while the Lehman Brothers Aggregate Bond Index rose 5.94 percent. As shown in the Economic Snapshot table on page four, consumer prices rose at a 4.10 percent annual rate for the period.

## Sector performance varied

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The weak results for the overall U.S. stock market – as represented by the S&P 500 – mask the considerable positive opportunities we saw across some sectors and the severe correction in other sectors. Many consumer staples and energy stocks offered positive returns for the period as oil prices flirted with \$100 a barrel. Meanwhile, many financial stocks were down more than 20 percent, stung by commitments to subprime mortgages and other poorly performing investments. In some cases, infusions of foreign capital have been needed to resolve problems.

I'm pleased to report that the overall financial health of the Waddell & Reed organization is strong. In our 70th year we achieved an exceptional level of internal growth and delivered high quality service to investors.

## Economic Snapshot

	12-31-2007	6-30-2007
U.S. unemployment rate	5.00%	4.60%
Inflation (U.S. Consumer Price Index)	4.10%	2.70%
U.S. GDP	0.60%	3.40%
30-year fixed mortgage rate	5.96%	6.63%
Oil price per barrel	\$96.00	\$70.68

All government statistics shown are subject to periodic revisions.

Sources: Bloomberg, U.S. Department of Labor

The U.S. Consumer Price Index is the government's measure of the change in the retail cost of goods and services. Gross domestic product measures year-over-year changes in the output of goods and services. Mortgage rates shown reflect the average rate on a conventional loan with a 60-day lender commitment. Oil prices reflect the market price of West Texas intermediate grade crude.

As we look forward, while past performance is no guarantee of future results, presidential election years historically have been positive

Respectfully,



Henry J. Herrmann, CFA  
President

The opinions expressed in this letter are those of the President of the Corporation, and are current only through the end of the period of the report, as stated on the cover. The President's views are subject to change at any time, based on market and other conditions, and no forecasts can be guaranteed.

for investors. However, we recommend a strong level of caution in 2008, as we believe that the range of financial outcomes for investors is wide. Whoever holds the reins of power in Congress and the White House will have many long-term structural issues to manage here and abroad which are likely to have substantial economic implications.

As always, we believe that maintaining a well-rounded portfolio is an essential element for securing your long-term financial future. In both politics and investing, it may be wise to remember that nothing – good or bad – can ever be assured.

## Our commitment

As investment managers, we consistently focus on offering you strategies that emphasize participation in positive markets, as well as a very strong effort to manage risk. We will strive to earn your continued confidence for many years to come.

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# Illustration of Fund Expenses

As a shareholder of a Fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase payments, redemption fees and exchange fees; and (2) ongoing costs, including management fees, distribution and service fees, and other Fund expenses. The following tables are intended to help you understand your ongoing costs (in dollars) of investing in a Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the period and held for the six-month period ended December 31, 2007.

## Actual Expenses

The first line for each share class in the following tables provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, a \$7,500 account value divided by \$1,000 = 7.5), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period. There may be additional fees charged to holders of certain accounts that are not included in the expenses shown in the tables. These fees apply to Individual Retirement Accounts (IRAs), IRA Rollovers, Roth IRAs, Conversion Roth IRAs, Simplified Employee Pension (SEP), Simple IRAs, Tax-Sheltered Accounts (TSAs), Keogh Plans, Owner Only 401(k) (Exclusive K) Plans and Final Pay Plans. As of the close of the six months covered by the tables, a customer is charged an annual fee of \$15 within each plan type. This fee is waived for IRA Rollovers and Conversion Roth IRAs if the customer owns another type of IRA. Coverdell Education Savings Account plans are charged an annual fee of \$10 per customer. You should consider the additional fees that were charged to your Fund account over the six-month period when you estimate the total ongoing expenses paid over the period and the impact of these fees on your ending account value as such additional expenses are not reflected in the information provided in the expense tables. Additional fees have the effect of reducing investment returns.

## Hypothetical Example for Comparison Purposes

The second line for each share class in the following tables provides information about hypothetical account values and hypothetical expenses based on a Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in a Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the tables are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads), redemption fees or exchange fees. Therefore, the second line of each share class in the tables is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

## Dividend Income Fund Expenses

For the Six Months Ended December 31, 2007	Beginning Account Value 6-30-07	Ending Account Value 12-31-07	Annualized Expense Ratio Based on the Six-Month Period	Expenses Paid During Period*
<b>Based on Actual Fund Return<sup>(1)</sup></b>				
Class A. ....	\$ 1,000	\$ 1,065.70	1.23%	\$ 6.40
Class B. ....	1,000	1,061.20	2.13	11.13
Class C. ....	1,000	1,061.40	2.08	10.82
Class Y. ....	1,000	1,067.40	0.91	4.76
<b>Based on 5% Return<sup>(2)</sup></b>				
Class A. ....	\$ 1,000	\$ 1,019.01	1.23%	\$ 6.26
Class B. ....	1,000	1,014.45	2.13	10.88
Class C. ....	1,000	1,014.71	2.08	10.58
Class Y. ....	1,000	1,020.62	0.91	4.65

## Energy Fund Expenses

For the Six Months Ended December 31, 2007	Beginning Account Value 6-30-07	Ending Account Value 12-31-07	Annualized Expense Ratio Based on the Six-Month Period	Expenses Paid During Period*
<b>Based on Actual Fund Return<sup>(1)</sup></b>				
Class A. ....	\$ 1,000	\$ 1,236.90	1.57%	\$ 8.84
Class B. ....	1,000	1,231.30	2.51	14.17
Class C. ....	1,000	1,231.80	2.36	13.28
Class Y. ....	1,000	1,240.20	1.13	6.38
<b>Based on 5% Return<sup>(2)</sup></b>				
Class A. ....	\$ 1,000	\$ 1,017.32	1.57%	\$ 7.97
Class B. ....	1,000	1,012.55	2.51	12.78
Class C. ....	1,000	1,013.32	2.36	11.98
Class Y. ....	1,000	1,019.51	1.13	5.76

See footnotes on page 7.

## Value Fund Expenses

For the Six Months Ended December 31, 2007	Beginning Account Value 6-30-07	Ending Account Value 12-31-07	Annualized Expense Ratio Based on the Six-Month Period	Expenses Paid During Period*
<b>Based on Actual Fund Return<sup>(1)</sup></b>				
Class A. ....	\$ 1,000	\$ 939.80	1.31%	\$ 6.40
Class B. ....	1,000	935.60	2.21	10.84
Class C. ....	1,000	935.50	2.19	10.65
Class Y. ....	1,000	941.60	0.92	4.47
<b>Based on 5% Return<sup>(2)</sup></b>				
Class A. ....	\$ 1,000	\$ 1,018.61	1.31%	\$ 6.66
Class B. ....	1,000	1,014.05	2.21	11.28
Class C. ....	1,000	1,014.19	2.19	11.08
Class Y. ....	1,000	1,020.59	0.92	4.65

\*Fund expenses for each share class are equal to the Fund's annualized expense ratio for each share class (provided in the table), multiplied by the average account value over the period, multiplied by 184 days in the six-month period ended December 31, 2007, and divided by 365.

(1) This section uses the Fund's actual total return and actual Fund expenses. It is a guide to the actual expenses paid by the Fund in the period. The "Ending Account Value" shown is computed using the Fund's actual return and the "Expenses Paid During Period" column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the Fund. A shareholder may use the information here, together with the dollar amount invested, to estimate the expenses that were paid over the period. For every thousand dollars a shareholder has invested, the expenses are listed in the last column.

(2) This section uses a hypothetical 5% annual return and actual Fund expenses. It helps to compare the Fund's ongoing costs with other mutual funds. A shareholder can compare the Fund's ongoing costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

The above illustration is based on ongoing costs only and does not include any transactional costs, such as sales loads, redemption fees or exchange fees.

# SHAREHOLDER SUMMARY OF DIVIDEND INCOME FUND

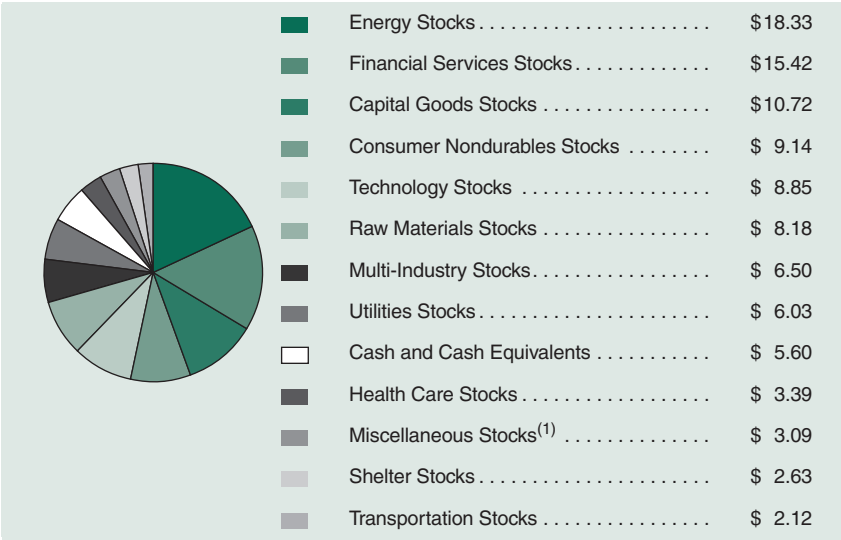
## Portfolio Highlights

On December 31, 2007, Waddell & Reed Advisors Dividend Income Fund had net assets totaling \$730,199,733 invested in a diversified portfolio of

86.51%	Domestic Common Stocks
7.89%	Foreign Common Stocks
5.60%	Cash and Cash Equivalents

## Sector Weightings

As a shareholder of the Fund, for every \$100 you had invested on December 31, 2007, your Fund owned:



(1) Includes \$1.82 Consumer Services Stocks and \$1.27 Retail Stocks



# The Investments of Dividend Income Fund

December 31, 2007

(Unaudited)

COMMON STOCKS	Shares	Value
<b>Aircraft – 5.87%</b>		
Boeing Company (The) .....	203,500	\$ 17,798,110
Goodrich Corporation .....	185,250	13,080,502
Raytheon Company .....	197,450	11,985,215
		<u>42,863,827</u>
<b>Banks – 1.26%</b>		
Bank of America Corporation .....	223,000	<u>9,200,980</u>
<b>Beverages – 4.46%</b>		
Coca-Cola Company (The) .....	187,250	11,491,532
Diageo plc, ADR .....	113,700	9,758,871
PepsiCo, Inc. ....	149,450	11,343,255
		<u>32,593,658</u>
<b>Capital Equipment – 5.64%</b>		
Caterpillar Inc. ....	96,050	6,969,388
Chicago Bridge & Iron Company N.V., NY Shares .....	70,350	4,251,954
Deere & Company .....	321,900	29,975,328
		<u>41,196,670</u>
<b>Chemicals – Petroleum and Inorganic – 4.77%</b>		
E.I. du Pont de Nemours and Company .....	181,600	8,006,744
Monsanto Company .....	158,950	17,753,126
UAP Holding Corp. ....	234,300	9,047,495
		<u>34,807,365</u>
<b>Chemicals – Specialty – 1.62%</b>		
Air Products and Chemicals, Inc. ....	120,300	<u>11,865,189</u>
<b>Communications Equipment – 0.96%</b>		
Nokia Corporation, Series A, ADR .....	182,100	<u>6,990,819</u>
<b>Computers – Peripherals – 1.26%</b>		
Microsoft Corporation .....	258,000	<u>9,183,510</u>
<b>Electrical Equipment – 1.00%</b>		
Emerson Electric Co. ....	129,200	<u>7,320,472</u>
<b>Electronic Components – 0.76%</b>		
Microchip Technology Incorporated .....	176,800	<u>5,557,708</u>
<b>Finance Companies – 1.12%</b>		
Blackstone Group L.P. (The) .....	113,600	2,513,968
Fannie Mae .....	141,300	5,649,174
		<u>8,163,142</u>
<b>Health Care – Drugs – 2.60%</b>		
Abbott Laboratories .....	166,350	9,340,552
Merck & Co., Inc. ....	166,300	9,663,693
		<u>19,004,245</u>

See Notes to Schedule of Investments on page 13.

# The Investments of Dividend Income Fund

December 31, 2007

(Unaudited)

COMMON STOCKS (Continued)	Shares	Value
<b>Hospital Supply and Management – 0.79%</b>		
Medtronic, Inc. ....	115,050	<u>\$ 5,783,564</u>
<b>Hotels and Gaming – 1.82%</b>		
Harrah's Entertainment, Inc. ....	73,400	6,514,250
Starwood Hotels & Resorts Worldwide, Inc. ....	154,300	6,793,829
		<u>13,308,079</u>
<b>Household – General Products – 3.76%</b>		
Colgate-Palmolive Company ....	179,250	13,974,330
Procter & Gamble Company (The) ....	183,900	13,501,938
		<u>27,476,268</u>
<b>Insurance – Life – 0.97%</b>		
Aflac Incorporated ....	113,250	<u>7,092,847</u>
<b>Insurance – Property and Casualty – 3.15%</b>		
ACE Limited ....	83,450	5,155,541
Ambac Financial Group, Inc. ....	134,500	3,466,065
Everest Re Group, Ltd. ....	57,200	5,742,880
MBIA Inc. ....	135,950	2,532,748
Travelers Companies, Inc. (The) ....	113,050	6,082,090
		<u>22,979,324</u>
<b>Metal Fabrication – 1.13%</b>		
Loews Corporation, Carolina Group ....	96,400	<u>8,222,920</u>
<b>Mining – 0.69%</b>		
Rio Tinto plc, ADR ....	12,000	<u>5,038,800</u>
<b>Multiple Industry – 6.50%</b>		
Altria Group, Inc. ....	247,700	18,721,166
Consolidated Communications Holdings, Inc. ....	6,250	124,469
El Paso Pipeline Partners, L.P.* ....	223,000	5,586,150
General Electric Company ....	409,500	15,180,165
NuStar GP Holdings, LLC ....	273,750	7,815,563
		<u>47,427,513</u>
<b>Non-Residential Construction – 2.95%</b>		
Fluor Corporation ....	147,850	<u>21,544,702</u>
<b>Petroleum – International – 7.38%</b>		
Anadarko Petroleum Corporation ....	189,900	12,474,531
Apache Corporation ....	119,500	12,851,030
Exxon Mobil Corporation ....	226,150	21,187,993
Marathon Oil Corporation ....	121,500	7,394,490
		<u>53,908,044</u>

See Notes to Schedule of Investments on page 13.

# The Investments of Dividend Income Fund

December 31, 2007

(Unaudited)

COMMON STOCKS (Continued)	Shares	Value
<b>Petroleum – Services – 10.95%</b>		
Baker Hughes Incorporated .....	155,750	\$ 12,631,325
Grant Prideco, Inc.* .....	123,900	6,877,689
National Oilwell Varco, Inc.* .....	169,900	12,480,854
Schlumberger Limited .....	240,900	23,697,333
Smith International, Inc. ....	112,600	8,315,510
Transocean Inc. ....	46,208	6,614,675
Weatherford International Ltd.* .....	135,850	9,319,310
		<u>79,936,696</u>
<b>Railroad – 2.12%</b>		
Burlington Northern Santa Fe Corporation .....	66,150	5,505,664
Union Pacific Corporation .....	79,450	9,980,509
		<u>15,486,173</u>
<b>Real Estate Investment Trust – 2.63%</b>		
Douglas Emmett, Inc. ....	294,550	6,659,775
ProLogis .....	85,050	5,390,469
Simon Property Group, Inc. ....	82,200	7,139,892
		<u>19,190,136</u>
<b>Restaurants – 1.27%</b>		
McDonald's Corporation .....	157,650	<u>9,287,162</u>
<b>Security and Commodity Brokers – 8.92%</b>		
AllianceBernstein Holding L.P. ....	229,250	17,251,062
CME Group Inc. ....	35,800	24,558,800
J.P. Morgan Chase & Co. ....	149,732	6,535,802
NYMEX Holdings, Inc. ....	81,800	10,929,298
UBS AG .....	127,550	5,867,300
		<u>65,142,262</u>
<b>Steel – 1.10%</b>		
Nucor Corporation .....	136,000	<u>8,053,920</u>
<b>Tobacco – 0.92%</b>		
Reynolds American Inc. ....	101,400	<u>6,688,344</u>
<b>Utilities – Electric – 2.76%</b>		
Dominion Resources, Inc. ....	165,700	7,862,465
NRG Energy, Inc.* .....	283,000	12,265,220
		<u>20,127,685</u>
<b>Utilities – Gas and Pipeline – 0.76%</b>		
Enbridge Inc. ....	136,450	<u>5,516,674</u>

See Notes to Schedule of Investments on page 13.

# The Investments of Dividend Income Fund

December 31, 2007

(Unaudited)

COMMON STOCKS (Continued)	Shares	Value
<b>Utilities – Telephone – 2.51%</b>		
AT&T Inc. ....	202,990	\$ 8,436,264
Iowa Telecommunications Services, Inc. ....	315,700	5,133,282
Verizon Communications Inc. ....	109,750	4,794,978
		<u>18,364,524</u>
<b>TOTAL COMMON STOCKS – 94.40%</b>		<b>\$689,323,222</b>
(Cost: \$505,827,617)		

SHORT-TERM SECURITIES	Principal Amount in Thousands	
<b>Commercial Paper</b>		
<b>Beverages – 0.69%</b>		
Anheuser-Busch Companies, Inc., 3.75%, 1–2–08 .....	\$2,034	2,033,788
PepsiCo, Inc., 4.2%, 1–10–08 .....	3,000	2,996,850
		<u>5,030,638</u>
<b>Finance Companies – 0.24%</b>		
PACCAR Financial Corp., 4.22%, 1–9–08 .....	1,800	<u>1,798,312</u>
<b>Food and Related – 1.09%</b>		
Heinz (H.J.) Finance Co. (Heinz (H.J.) Co.), 5.0%, 1–24–08 .....	3,000	2,990,417
Hershey Company (The), 4.25%, 1–28–08 .....	5,000	4,984,063
		<u>7,974,480</u>
<b>Household – General Products – 0.37%</b>		
Clorox Co., 5.5%, 1–4–08 .....	2,700	<u>2,698,763</u>
<b>Motor Vehicles – 0.55%</b>		
Harley-Davidson Funding Corp., 4.22%, 1–29–08 .....	4,000	<u>3,986,871</u>
<b>Security and Commodity Brokers – 0.68%</b>		
American Express Credit Corp., 4.3%, 1–23–08 .....	5,000	<u>4,986,861</u>
<b>Utilities – Electric – 0.23%</b>		
Wisconsin Electric Power Co., 4.35%, 1–9–08 .....	1,683	<u>1,681,373</u>

See Notes to Schedule of Investments on page 13.

# The Investments of Dividend Income Fund

December 31, 2007

(Unaudited)

SHORT-TERM SECURITIES (Continued)	Principal Amount in Thousands	Value
<b>Commercial Paper (Continued)</b>		
<b>Utilities – Telephone – 1.14%</b>		
AT&T Inc.:		
4.05%, 1–2–08 .....	\$6,323	\$ 6,322,289
4.25%, 1–29–08 .....	2,000	1,993,389
		<u>8,315,678</u>
<b>Total Commercial Paper – 4.99%</b>		<b>36,472,976</b>
<b>Commercial Paper (backed by irrevocable bank letter of credit) – 0.39%</b>		
<b>Finance Companies</b>		
ED&F Man Treasury Management PLC (Royal Bank of Scotland PLC (The)),		
4.0%, 1–2–08 .....	2,827	<u>2,826,686</u>
<b>TOTAL SHORT-TERM SECURITIES – 5.38%</b>		<b>\$ 39,299,662</b>
(Cost: \$39,299,662)		
<b>TOTAL INVESTMENT SECURITIES – 99.78%</b>		<b>\$728,622,884</b>
(Cost: \$545,127,279)		
<b>CASH AND OTHER ASSETS, NET OF LIABILITIES – 0.22%</b>		<b>1,576,849</b>
<b>NET ASSETS – 100.00%</b>		<b>\$730,199,733</b>

## Notes to Schedule of Investments

Certain acronyms may be used within the body of the Fund's holdings. The definitions of these acronyms are as follows: ADR – American Depositary Receipts; CMO – Collateralized Mortgage Obligation; GDR – Global Depositary Receipts; and REMIC – Real Estate Mortgage Investment Conduit.

\*No dividends were paid during the preceding 12 months.

See Note 1 to financial statements for security valuation and other significant accounting policies concerning investments.

See Note 3 to financial statements for cost and unrealized appreciation and depreciation of investments owned for Federal income tax purposes.

# Statement of Assets and Liabilities

## DIVIDEND INCOME FUND

December 31, 2007

(In Thousands, Except for Per Share Amounts)

(Unaudited)

### ASSETS

Investment securities – at value (cost – \$545,127) (Notes 1 and 3) . . . . .	\$728,623
Cash . . . . .	1
Receivables:	
Fund shares sold. . . . .	1,511
Dividends and interest. . . . .	1,345
Prepaid and other assets . . . . .	42
Total assets . . . . .	<u>731,522</u>

### LIABILITIES

Payable to Fund shareholders . . . . .	968
Accrued service fee (Note 2) . . . . .	138
Accrued shareholder servicing (Note 2) . . . . .	131
Accrued accounting services fee (Note 2) . . . . .	15
Accrued management fee (Note 2) . . . . .	14
Accrued distribution fee (Note 2) . . . . .	2
Other . . . . .	54
Total liabilities. . . . .	<u>1,322</u>
Total net assets . . . . .	<u>\$730,200</u>

### NET ASSETS

\$0.001 par value capital stock:	
Capital stock . . . . .	\$ 42
Additional paid-in capital . . . . .	545,412
Accumulated undistributed income:	
Accumulated undistributed net investment income. . . . .	6
Accumulated undistributed net realized gain	
on investment transactions . . . . .	1,244
Net unrealized appreciation in value of investments. . . . .	183,496
Net assets applicable to outstanding units of capital. . . . .	<u>\$730,200</u>

### Net asset value per share (net assets divided by shares outstanding):

Class A . . . . .	\$17.54
Class B . . . . .	\$17.47
Class C . . . . .	\$17.48
Class Y . . . . .	\$17.54

### Capital shares outstanding:

Class A . . . . .	37,510
Class B . . . . .	1,832
Class C . . . . .	1,444
Class Y . . . . .	864

Capital shares authorized . . . . .	330,000
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See Notes to Financial Statements.

# Statement of Operations

## DIVIDEND INCOME FUND

For the Six Months Ended December 31, 2007

(In Thousands)

(Unaudited)

### INVESTMENT INCOME

Income (Note 1B):	
Dividends (net of foreign withholding taxes of \$13) .....	\$ 6,729
Interest and amortization .....	1,503
Total income .....	<u>8,232</u>
Expenses (Note 2):	
Investment management fee .....	2,411
Service fee:	
Class A .....	762
Class B .....	41
Class C .....	31
Shareholder servicing:	
Class A .....	665
Class B .....	60
Class C .....	40
Class Y .....	12
Distribution fee:	
Class A .....	8
Class B .....	123
Class C .....	94
Accounting services fee .....	86
Audit fees .....	10
Legal fees .....	10
Custodian fees .....	8
Other .....	108
Total expenses .....	<u>4,469</u>
Net investment income .....	<u>3,763</u>

### REALIZED AND UNREALIZED GAIN

#### ON INVESTMENTS (NOTES 1 AND 3)

Realized net gain on investments .....	1,278
Unrealized appreciation in value of investments during the period .....	37,723
Net gain on investments .....	<u>39,001</u>
Net increase in net assets resulting from operations .....	<u>\$42,764</u>

See Notes to Financial Statements.

# Statement of Changes in Net Assets

## DIVIDEND INCOME FUND

(In Thousands)

(Unaudited)

	For the six months ended December 31, 2007	For the fiscal year ended June 30, 2007
<b>INCREASE IN NET ASSETS</b>		
Operations:		
Net investment income . . . . .	\$ 3,763	\$ 5,716
Realized net gain on investments . . . . .	1,278	10,995
Unrealized appreciation. . . . .	37,723	66,067
Net increase in net assets resulting from operations. . . . .	42,764	82,778
Distributions to shareholders from (Note 1E):(1)		
Net investment income:		
Class A. . . . .	(3,861)	(5,388)
Class B. . . . .	(57)	(65)
Class C. . . . .	(49)	(64)
Class Y. . . . .	(116)	(206)
Realized gains on investment transactions:		
Class A. . . . .	(8,975)	(6,753)
Class B. . . . .	(473)	(382)
Class C. . . . .	(350)	(314)
Class Y. . . . .	(208)	(203)
	(14,089)	(13,375)
Capital share transactions (Note 5) . . . . .	72,219	143,227
Total increase . . . . .	100,894	212,630
<b>NET ASSETS</b>		
Beginning of period. . . . .	629,306	416,676
End of period. . . . .	\$730,200	\$629,306
Undistributed net investment income . . . . .	\$ 6	\$ 326

(1) See "Financial Highlights" on pages 17 - 20.

See Notes to Financial Statements.



# Financial Highlights

## DIVIDEND INCOME FUND

Class A Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended 12-31-07	For the fiscal year ended June 30, 2007      2006      2005			For the period from 7-1-03 <sup>(1)</sup> to 6-30-04
Net asset value, beginning of period . . . . .	\$16.79	\$14.76	\$12.51	\$11.26	\$10.00
Income from investment operations:					
Net investment income . . . . .	0.10	0.18	0.16	0.13	0.07
Net realized and unrealized gain on investments. . . . .	1.00	2.27	2.25	1.28	1.25
Total from investment operations . . . . .	1.10	2.45	2.41	1.41	1.32
Less distributions from:					
Net investment income . . . . .	(0.11)	(0.18)	(0.16)	(0.13)	(0.06)
Capital gains . . . . .	(0.24)	(0.24)	(0.00)	(0.03)	(0.00)
Total distributions . . . . .	(0.35)	(0.42)	(0.16)	(0.16)	(0.06)
Net asset value, end of period . . . . .	\$17.54	\$16.79	\$14.76	\$12.51	\$11.26
Total return <sup>(2)</sup> . . . . .	6.57%	16.87%	19.31%	12.59%	13.18%
Net assets, end of period (in millions) . . . . .	\$658	\$559	\$365	\$228	\$132
Ratio of expenses to average net assets including expense waiver . . .	1.23% <sup>(3)</sup>	1.25%	1.27%	1.32%	1.40%
Ratio of net investment income to average net assets including expense waiver . . . . .	1.16% <sup>(3)</sup>	1.18%	1.17%	1.20%	0.84%
Ratio of expenses to average net assets excluding expense waiver . . .	1.23% <sup>(3)(4)</sup>	1.25% <sup>(4)</sup>	1.27% <sup>(4)</sup>	1.32% <sup>(4)</sup>	1.41%
Ratio of net investment income to average net assets excluding expense waiver . . . . .	1.16% <sup>(3)(4)</sup>	1.18% <sup>(4)</sup>	1.17% <sup>(4)</sup>	1.20% <sup>(4)</sup>	0.83%
Portfolio turnover rate . . . . .	2%	28%	15%	28%	27%

(1) Commencement of operations of the class.

(2) Total return calculated without taking into account the sales load deducted on an initial purchase.

(3) Annualized.

(4) There was no waiver of expenses during the period.

See Notes to Financial Statements.

# Financial Highlights

## DIVIDEND INCOME FUND

Class B Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended 12-31-07	For the fiscal year ended June 30, 2007      2006      2005			For the period from 7-1-03 <sup>(1)</sup> to 6-30-04
Net asset value, beginning of period . . . . .	\$16.72	\$14.71	\$12.46	\$11.22	\$10.00
Income (loss) from investment operations:					
Net investment income (loss) . . . . .	0.02	0.04	0.03	0.03	(0.00)
Net realized and unrealized gain on investments. . . . .	1.00	2.25	2.24	1.27	1.22
Total from investment operations . . . . .	1.02	2.29	2.27	1.30	1.22
Less distributions from:					
Net investment income . . . .	(0.03)	(0.04)	(0.02)	(0.03)	(0.00)
Capital gains . . . . .	(0.24)	(0.24)	(0.00)	(0.03)	(0.00)
Total distributions . . . . .	(0.27)	(0.28)	(0.02)	(0.06)	(0.00)
Net asset value, end of period . . . . .	\$17.47	\$16.72	\$14.71	\$12.46	\$11.22
Total return . . . . .	6.12%	15.72%	18.24%	11.57%	12.20%
Net assets, end of period (in millions) . . . . .	\$32	\$31	\$22	\$16	\$10
Ratio of expenses to average net assets including expense waiver . . .	2.13% <sup>(2)</sup>	2.19%	2.20%	2.26%	2.30%
Ratio of net investment income (loss) to average net assets including expense waiver . . . . .	0.25% <sup>(2)</sup>	0.25%	0.22%	0.26%	-0.06%
Ratio of expenses to average net assets excluding expense waiver . . . . .	2.13% <sup>(2)(3)</sup>	2.19% <sup>(3)</sup>	2.20% <sup>(3)</sup>	2.26% <sup>(3)</sup>	2.31%
Ratio of net investment income (loss) to average net assets excluding expense waiver . . . . .	0.25% <sup>(2)(3)</sup>	0.25% <sup>(3)</sup>	0.22% <sup>(3)</sup>	0.26% <sup>(3)</sup>	-0.07%
Portfolio turnover rate . . . . .	2%	28%	15%	28%	27%

(1)Commencement of operations of the class.

(2)Annualized.

(3)There was no waiver of expenses during the period.

See Notes to Financial Statements.

# Financial Highlights

## DIVIDEND INCOME FUND

Class C Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended 12-31-07	For the fiscal year ended June 30, 2007      2006      2005			For the period from 7-1-03 <sup>(1)</sup> to 6-30-04
Net asset value, beginning of period . . . . .	\$16.73	\$14.71	\$12.47	\$11.23	\$10.00
Income (loss) from investment operations:					
Net investment income (loss) . . . . .	0.03	0.05	0.04	0.04	(0.00)
Net realized and unrealized gain on investments. . . . .	1.00	2.26	2.23	1.26	1.23
Total from investment operations . . . . .	1.03	2.31	2.27	1.30	1.23
Less distributions from:					
Net investment income . . . .	(0.03)	(0.05)	(0.03)	(0.03)	(0.00)
Capital gains . . . . .	(0.25)	(0.24)	(0.00)	(0.03)	(0.00)
Total distributions . . . . .	(0.28)	(0.29)	(0.03)	(0.06)	(0.00)
Net asset value, end of period . . . . .	\$17.48	\$16.73	\$14.71	\$12.47	\$11.23
Total return . . . . .	6.14%	15.85%	18.22%	11.59%	12.30%
Net assets, end of period (in millions) . . . . .	\$25	\$24	\$18	\$11	\$8
Ratio of expenses to average net assets including expense waiver . . .	2.08% <sup>(2)</sup>	2.12%	2.14%	2.19%	2.24%
Ratio of net investment income (loss) to average net assets including expense waiver . . . . .	0.30% <sup>(2)</sup>	0.32%	0.29%	0.32%	-0.00%
Ratio of expenses to average net assets excluding expense waiver . . . . .	2.08% <sup>(2)(3)</sup>	2.12% <sup>(3)</sup>	2.14% <sup>(3)</sup>	2.19% <sup>(3)</sup>	2.25%
Ratio of net investment income (loss) to average net assets excluding expense waiver . . . . .	0.30% <sup>(2)(3)</sup>	0.32% <sup>(3)</sup>	0.29% <sup>(3)</sup>	0.32% <sup>(3)</sup>	-0.01%
Portfolio turnover rate . . . . .	2%	28%	15%	28%	27%

(1) Commencement of operations of the class.

(2) Annualized.

(3) There was no waiver of expenses during the period.

See Notes to Financial Statements.

# Financial Highlights

## DIVIDEND INCOME FUND

Class Y Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended 12-31-07	For the fiscal year ended June 30, 2007      2006      2005			For the period from 7-1-03 <sup>(1)</sup> to 6-30-04
Net asset value, beginning of period . . . . .	\$16.79	\$14.76	\$12.51	\$11.26	\$10.00
Income from investment operations:					
Net investment income . . . . .	0.13	0.24	0.20	0.18	0.07
Net realized and unrealized gain on investments. . . . .	1.00	2.27	2.25	1.28	1.28
Total from investment operations . . . . .	1.13	2.51	2.45	1.46	1.35
Less distributions from:					
Net investment income . . . . .	(0.14)	(0.24)	(0.20)	(0.18)	(0.09)
Capital gains . . . . .	(0.24)	(0.24)	(0.00)	(0.03)	(0.00)
Total distributions . . . . .	(0.38)	(0.48)	(0.20)	(0.21)	(0.09)
Net asset value, end of period . . . . .	\$17.54	\$16.79	\$14.76	\$12.51	\$11.26
Total return . . . . .	6.74%	17.25%	19.71%	13.01%	13.58%
Net assets, end of period (in millions) . . . . .	\$15	\$15	\$12	\$10	\$8
Ratio of expenses to average net assets including expense waiver . . .	0.91% <sup>(2)</sup>	0.92%	0.94%	0.96%	1.01%
Ratio of net investment income to average net assets including expense waiver . . . . .	1.46% <sup>(2)</sup>	1.52%	1.49%	1.56%	1.03%
Ratio of expenses to average net assets excluding expense waiver . . .	0.91% <sup>(2)(3)</sup>	0.92% <sup>(3)</sup>	0.94% <sup>(3)</sup>	0.96% <sup>(3)</sup>	1.02%
Ratio of net investment income to average net assets excluding expense waiver . . . . .	1.46% <sup>(2)(3)</sup>	1.52% <sup>(3)</sup>	1.49% <sup>(3)</sup>	1.56% <sup>(3)</sup>	1.02%
Portfolio turnover rate . . . . .	2%	28%	15%	28%	27%

(1) Commencement of operations of the class.

(2) Annualized.

(3) There was no waiver of expenses during the period.

See Notes to Financial Statements.

## SHAREHOLDER SUMMARY OF ENERGY FUND

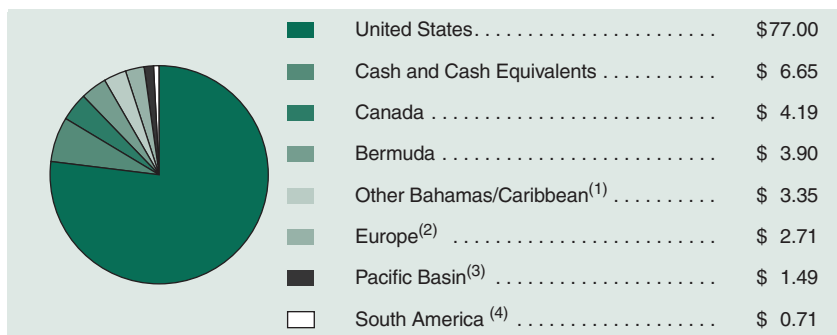
### Portfolio Highlights

On December 31, 2007, Waddell & Reed Advisors Energy Fund had net assets totaling \$218,148,341 invested in a diversified portfolio of:

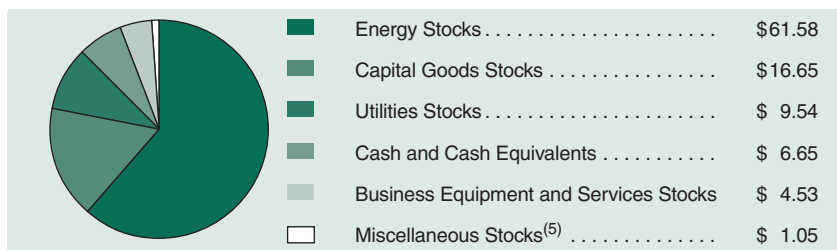
77.00%	Domestic Common Stocks
16.35%	Foreign Common Stocks
6.65%	Cash and Cash Equivalents

As a shareholder of the Fund, for every \$100 you had invested on December 31, 2007, your Fund was invested by geographic region and industry, respectively, as follows:

### Country Weightings



### Sector Weightings



(1)Includes \$3.35 Cayman Islands.

(2)Includes \$0.72 France, \$0.49 Netherlands and \$1.50 United Kingdom.

(3)Includes \$0.49 China and \$1.00 Hong Kong.

(4)Includes \$0.71 Brazil.

(5)Includes \$0.58 Raw Materials Stocks and \$0.47 Technology Stocks.

# The Investments of Energy Fund

December 31, 2007

(Unaudited)

COMMON STOCKS	Shares	Value
<b>Business Equipment and Services – 4.53%</b>		
Bucyrus International, Inc., Class A .....	28,350	\$ 2,815,013
EnergySolutions, Inc.* .....	123,800	3,341,362
Jacobs Engineering Group Inc.* .....	39,050	3,733,570
		<u>9,889,945</u>
<b>Capital Equipment – 8.04%</b>		
Cameron International Corporation* .....	117,500	5,655,275
Chicago Bridge & Iron Company N.V., NY Shares .....	17,600	1,063,744
Shaw Group Inc. (The)* .....	35,550	2,148,642
SunPower Corporation, Class A* .....	35,150	4,561,416
Suntech Power Holdings Co., Ltd., ADR* .....	49,850	4,103,652
		<u>17,532,729</u>
<b>Coal – 3.08%</b>		
Arch Coal, Inc. ....	47,650	2,140,914
Foundation Coal Holdings, Inc. ....	29,600	1,554,000
Peabody Energy Corporation .....	49,250	3,035,770
		<u>6,730,684</u>
<b>Electrical Equipment – 6.06%</b>		
First Solar, Inc.* .....	49,500	<u>13,222,192</u>
<b>Electronic Instruments – 0.47%</b>		
Energy Conversion Devices, Inc.* .....	30,150	<u>1,013,040</u>
<b>Mining – 0.58%</b>		
Cameco Corporation .....	31,750	<u>1,263,968</u>
<b>Non-Residential Construction – 2.55%</b>		
Fluor Corporation .....	27,400	3,992,728
Technip SA, ADR .....	19,750	1,560,744
		<u>5,553,472</u>
<b>Petroleum – Canada – 1.06%</b>		
Suncor Energy Inc. ....	21,300	<u>2,315,949</u>
<b>Petroleum – Domestic – 5.49%</b>		
Continental Resources, Inc.* .....	114,150	2,982,739
SandRidge Energy, Inc.* .....	75,650	2,712,809
Sunoco, Inc. ....	24,150	1,749,426
Valero Energy Corporation .....	36,550	2,559,597
XTO Energy Inc. ....	38,375	1,970,940
		<u>11,975,511</u>

See Notes to Schedule of Investments on page 25.

# The Investments of Energy Fund

December 31, 2007

(Unaudited)

COMMON STOCKS (Continued)	Shares	Value
<b>Petroleum – International – 27.17%</b>		
Anadarko Petroleum Corporation .....	52,700	\$ 3,461,863
Apache Corporation .....	51,400	5,527,556
BP p.l.c., ADR .....	44,700	3,270,699
CNOOC Limited, ADR .....	13,100	2,193,333
ConocoPhillips .....	38,850	3,430,455
Devon Energy Corporation .....	45,500	4,045,405
ENSCO International Incorporated .....	39,700	2,366,914
EOG Resources, Inc. ....	40,150	3,583,387
Exxon Mobil Corporation .....	59,900	5,612,031
Hess Corporation .....	25,650	2,587,059
Marathon Oil Corporation .....	50,400	3,067,344
Newfield Exploration Company* .....	79,150	4,171,205
Noble Energy, Inc. ....	56,550	4,496,856
Occidental Petroleum Corporation .....	51,700	3,980,383
PetroChina Company Limited, ADR .....	6,050	1,061,594
Petroleo Brasileiro S.A. – Petrobras, ADR .....	13,400	1,544,216
Talisman Energy Inc. ....	135,600	2,511,312
Ultra Petroleum Corp.* .....	32,900	2,352,350
		<b>59,263,962</b>
<b>Petroleum – Services – 24.78%</b>		
BJ Services Company .....	118,550	2,876,023
Baker Hughes Incorporated .....	57,100	4,630,810
CVR Energy, Inc.* .....	96,300	2,401,722
Complete Production Services, Inc.* .....	153,800	2,763,786
FMC Technologies, Inc.* .....	22,850	1,295,595
Grant Prideco, Inc.* .....	72,100	4,002,271
Halliburton Company .....	92,150	3,493,406
Helix Energy Solutions Group, Inc.* .....	29,100	1,207,650
Nabors Industries Ltd.* .....	138,700	3,798,993
National Oilwell Varco, Inc.* .....	117,000	8,594,820
Schlumberger Limited .....	66,600	6,551,442
Smith International, Inc. ....	61,250	4,523,313
Transocean Inc. ....	22,352	3,199,689
Weatherford International Ltd.* .....	68,800	4,719,680
		<b>54,059,200</b>
<b>Utilities – Electric – 5.62%</b>		
Entergy Corporation .....	32,700	3,908,304
Exelon Corporation .....	41,650	3,400,306
Mirant Corporation* .....	57,250	2,231,605
NRG Energy, Inc.* .....	62,800	2,721,752
		<b>12,261,967</b>

See Notes to Schedule of Investments on page 25.

# The Investments of Energy Fund

December 31, 2007

(Unaudited)

COMMON STOCKS (Continued)	Shares	Value
<b>Utilities – Gas and Pipeline – 3.92%</b>		
El Paso Pipeline Partners, L.P.* .....	93,050	\$ 2,330,902
Enbridge Inc. ....	75,250	3,042,358
Southwestern Energy Company* .....	57,000	3,176,040
		<u>8,549,300</u>
<b>TOTAL COMMON STOCKS – 93.35%</b>		<b>\$203,631,919</b>
(Cost: \$137,541,650)		
SHORT-TERM SECURITIES	Principal Amount in Thousands	
<b>Finance Companies – 2.52%</b>		
PACCAR Financial Corp.:		
4.19%, 1–4–08 .....	\$4,200	4,198,533
4.22%, 1–9–08 .....	1,300	1,298,781
		<u>5,497,314</u>
<b>Household – General Products – 0.91%</b>		
Procter & Gamble International Funding S.C.A. (Procter & Gamble Company (The)),		
4.24%, 1–25–08 .....	2,000	<u>1,994,347</u>
<b>Utilities – Telephone – 3.00%</b>		
AT&T Inc.:		
4.05%, 1–2–08 .....	4,552	4,551,488
4.25%, 1–29–08 .....	2,000	1,993,389
		<u>6,544,877</u>
<b>TOTAL SHORT-TERM SECURITIES – 6.43%</b>		<b>\$ 14,036,538</b>
(Cost: \$14,036,538)		
<b>TOTAL INVESTMENT SECURITIES – 99.78%</b>		<b>\$217,668,457</b>
(Cost: \$151,578,188)		
<b>CASH AND OTHER ASSETS, NET OF LIABILITIES – 0.22%</b>		<b>479,884</b>
<b>NET ASSETS – 100.00%</b>		<b>\$218,148,341</b>

See Notes to Schedule of Investments on page 25.



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# The Investments of Energy Fund

*December 31, 2007*

*(Unaudited)*

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## Notes to Schedule of Investments

Certain acronyms may be used within the body of the Fund's holdings. The definitions of these acronyms are as follows: ADR – American Depositary Receipts; CMO – Collateralized Mortgage Obligation; GDR – Global Depositary Receipts; and REMIC – Real Estate Mortgage Investment Conduit.

\*No dividends were paid during the preceding 12 months.

See Note 1 to financial statements for security valuation and other significant accounting policies concerning investments.

See Note 3 to financial statements for cost and unrealized appreciation and depreciation of investments owned for Federal income tax purposes.

# Statement of Assets and Liabilities

## ENERGY FUND

December 31, 2007

(In Thousands, Except for Per Share Amounts)

(Unaudited)

### ASSETS

Investment securities – at value (cost – \$151,578) (Notes 1 and 3) . . . . .	\$217,668
Cash . . . . .	11
Receivables:	
Fund shares sold. . . . .	799
Dividends and interest. . . . .	62
Prepaid and other assets . . . . .	43
Total assets . . . . .	<u>218,583</u>

### LIABILITIES

Payable to Fund shareholders . . . . .	311
Accrued shareholder servicing (Note 2) . . . . .	55
Accrued service fee (Note 2) . . . . .	40
Accrued accounting services fee (Note 2) . . . . .	8
Accrued management fee (Note 2) . . . . .	5
Accrued distribution fee (Note 2) . . . . .	1
Other . . . . .	15
Total liabilities. . . . .	<u>435</u>
Total net assets . . . . .	<u>\$218,148</u>

### NET ASSETS

\$0.001 par value capital stock:	
Capital stock . . . . .	\$ 14
Additional paid-in capital . . . . .	152,000
Accumulated undistributed income (loss):	
Accumulated undistributed net investment loss . . . . .	(578)
Accumulated undistributed net realized gain	
on investment transactions . . . . .	622
Net unrealized appreciation in value of investments. . . . .	66,090
Net assets applicable to outstanding units of capital. . . . .	<u>\$218,148</u>

### Net asset value per share (net assets divided by shares outstanding):

Class A . . . . .	\$15.40
Class B . . . . .	\$15.12
Class C . . . . .	\$15.20
Class Y . . . . .	\$15.54

### Capital shares outstanding:

Class A . . . . .	13,028
Class B . . . . .	513
Class C . . . . .	529
Class Y . . . . .	108

Capital shares authorized . . . . .	330,000
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See Notes to Financial Statements.

# Statement of Operations

## ENERGY FUND

For the Six Months Ended December 31, 2007

(In Thousands)

(Unaudited)

### INVESTMENT LOSS

Income (Note 1B):

Dividends (net of foreign withholding taxes of \$14) .....	\$ 569
Interest and amortization .....	309
Total income .....	<u>878</u>

Expenses (Note 2):

Investment management fee .....	758
Shareholder servicing:	
Class A .....	286
Class B .....	19
Class C .....	13
Class Y .....	1
Service fee:	
Class A .....	197
Class B .....	9
Class C .....	9
Distribution fee:	
Class A .....	7
Class B .....	26
Class C .....	26
Accounting services fee .....	36
Registration fees .....	28
Audit fees .....	11
Custodian fees .....	4
Legal fee .....	3
Other .....	23
Total expenses .....	<u>1,456</u>
Net investment loss .....	<u>(578)</u>

### REALIZED AND UNREALIZED GAIN

#### ON INVESTMENTS (NOTES 1 AND 3)

Realized net gain on investments .....	1,580
Unrealized appreciation in value of investments during the period .....	37,956
Net gain on investments .....	<u>39,536</u>
Net increase in net assets resulting from operations .....	<u>\$38,958</u>

See Notes to Financial Statements.

# Statement of Changes in Net Assets

## ENERGY FUND

(In Thousands)

(Unaudited)

	For the six months ended December 31, 2007	For the fiscal year ended June 30, 2007
<b>INCREASE IN NET ASSETS</b>		
Operations:		
Net investment loss . . . . .	\$ (578)	\$ (614)
Realized net gain (loss) on investments . . . . .	1,580	(905)
Unrealized appreciation. . . . .	37,956	25,425
Net increase in net assets resulting from operations. . . . .	38,958	23,906
Distributions to shareholders from (Note 1E):(1)		
Net investment income:		
Class A. . . . .	(—)	(—)
Class B. . . . .	(—)	(—)
Class C. . . . .	(—)	(—)
Class Y. . . . .	(—)	(—)
Realized gains on investment transactions:		
Class A. . . . .	(—)	(—)
Class B. . . . .	(—)	(—)
Class C. . . . .	(—)	(—)
Class Y. . . . .	(—)	(—)
Capital share transactions (Note 5) . . . . .	30,104	8,617
Total increase . . . . .	69,062	32,523
<b>NET ASSETS</b>		
Beginning of period. . . . .	149,086	116,563
End of period. . . . .	\$218,148	\$149,086
Undistributed net investment income (loss) . . . . .	\$ (578)	\$ —

(1) See "Financial Highlights" on pages 29 - 32.

See Notes to Financial Statements.

# Financial Highlights

## ENERGY FUND

Class A Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended 12-31-07	For the fiscal year ended 6-30-07	For the period from 3-1-06 <sup>(1)</sup> to 6-30-06
Net asset value, beginning of period . . . . .	\$12.45	\$10.43	\$10.00
Income (loss) from investment operations:			
Net investment income (loss) . . . . .	(0.04)	(0.04)	0.00
Net realized and unrealized gain on investments. . . . .	2.99	2.06	0.43
Total from investment operations . . . . .	2.95	2.02	0.43
Less distributions from:			
Net investment income . . . . .	(0.00)	(0.00)	(0.00)
Capital gains . . . . .	(0.00)	(0.00)	(0.00)
Total distributions . . . . .	(0.00)	(0.00)	(0.00)
Net asset value, end of period . . . . .	\$15.40	\$12.45	\$10.43
Total return <sup>(2)</sup> . . . . .	23.69%	19.37%	4.30%
Net assets, end of period (in millions) . . . . .	\$200	\$136	\$105
Ratio of expenses to average net assets . . . . .	1.57% <sup>(3)</sup>	1.74%	1.86% <sup>(3)</sup>
Ratio of net investment income (loss) to average net assets . . . . .	-0.58% <sup>(3)</sup>	-0.42%	0.00% <sup>(3)</sup>
Portfolio turnover rate . . . . .	4%	19%	4%

(1) Commencement of operations of the class.

(2) Total return calculated without taking into account the sales load deducted on an initial purchase.

(3) Annualized.

See Notes to Financial Statements.

# Financial Highlights

## ENERGY FUND

Class B Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended 12-31-07	For the fiscal year ended 6-30-07	For the period from 3-1-06 <sup>(1)</sup> to 6-30-06
Net asset value, beginning of period . . . . .	\$12.28	\$10.39	\$10.00
Income (loss) from investment operations:			
Net investment loss . . . . .	(0.10)	(0.14)	(0.03)
Net realized and unrealized gain on investments . . . . .	2.94	2.03	0.42
Total from investment operations . . . . .	2.84	1.89	0.39
Less distributions from:			
Net investment income . . . . .	(0.00)	(0.00)	(0.00)
Capital gains . . . . .	(0.00)	(0.00)	(0.00)
Total distributions . . . . .	(0.00)	(0.00)	(0.00)
Net asset value, end of period . . . . .	\$15.12	\$12.28	\$10.39
Total return . . . . .	23.13%	18.19%	3.90%
Net assets, end of period (in millions) . . . . .	\$8	\$6	\$5
Ratio of expenses to average net assets . . . . .	2.51% <sup>(2)</sup>	2.72%	2.78% <sup>(2)</sup>
Ratio of net investment loss to average net assets . . . . .	-1.52% <sup>(2)</sup>	-1.41%	-0.92% <sup>(2)</sup>
Portfolio turnover rate . . . . .	4%	19%	4%

(1) Commencement of operations of the class.

(2) Annualized.

See Notes to Financial Statements.

# Financial Highlights

## ENERGY FUND

Class C Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended 12-31-07	For the fiscal year ended 6-30-07	For the period from 3-1-06 <sup>(1)</sup> to 6-30-06
Net asset value, beginning of period . . . . .	\$12.34	\$10.41	\$10.00
Income (loss) from investment operations:			
Net investment loss . . . . .	(0.08)	(0.14)	(0.02)
Net realized and unrealized gain on investments . . . . .	2.94	2.07	0.43
Total from investment operations . . . . .	2.86	1.93	0.41
Less distributions from:			
Net investment income . . . . .	(0.00)	(0.00)	(0.00)
Capital gains . . . . .	(0.00)	(0.00)	(0.00)
Total distributions . . . . .	(0.00)	(0.00)	(0.00)
Net asset value, end of period . . . . .	\$15.20	\$12.34	\$10.41
Total return . . . . .	23.18%	18.54%	4.10%
Net assets, end of period (in millions) . . . . .	\$8	\$6	\$6
Ratio of expenses to average net assets . . . . .	2.36% <sup>(2)</sup>	2.51%	2.58% <sup>(2)</sup>
Ratio of net investment loss to average net assets . . . . .	-1.37% <sup>(2)</sup>	-1.19%	-0.73% <sup>(2)</sup>
Portfolio turnover rate . . . . .	4%	19%	4%

(1)Commencement of operations of the class.

(2)Annualized.

See Notes to Financial Statements.

# Financial Highlights

## ENERGY FUND

Class Y Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended 12-31-07	For the fiscal year ended 6-30-07	For the period from 3-1-06 <sup>(1)</sup> to 6-30-06
Net asset value, beginning of period . . . . .	\$12.53	\$10.44	\$10.00
Income (loss) from investment operations:			
Net investment income (loss) . . . . .	(0.01)	0.00	0.01
Net realized and unrealized gain on investments. . . . .	3.02	2.09	0.43
Total from investment operations . . . . .	3.01	2.09	0.44
Less distributions from:			
Net investment income . . . . .	(0.00)	(0.00)	(0.00)
Capital gains . . . . .	(0.00)	(0.00)	(0.00)
Total distributions . . . . .	(0.00)	(0.00)	(0.00)
Net asset value, end of period . . . . .	\$15.54	\$12.53	\$10.44
Total return . . . . .	24.02%	20.02%	4.40%
Net assets, end of period (in millions) . . . . .	\$2	\$1	\$1
Ratio of expenses to average net assets. . . . .	1.13% <sup>(2)</sup>	1.21%	1.46% <sup>(2)</sup>
Ratio of net investment income (loss) to average net assets . . . . .	-0.13% <sup>(2)</sup>	0.07%	0.29% <sup>(2)</sup>
Portfolio turnover rate . . . . .	4%	19%	4%

(1)Commencement of operations of the class.

(2)Annualized.

See Notes to Financial Statements.



# SHAREHOLDER SUMMARY OF VALUE FUND

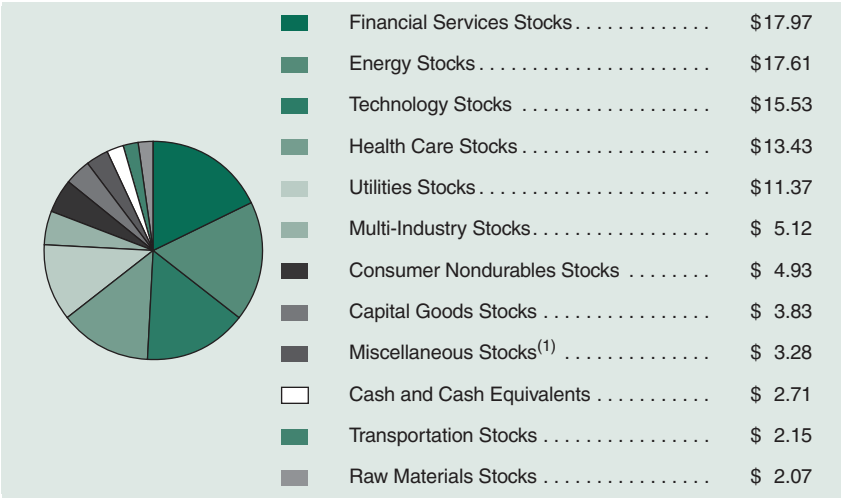
## Portfolio Highlights

On December 31, 2007, Waddell & Reed Advisors Value Fund had net assets totaling \$533,813,198 invested in a diversified portfolio of:

92.37%	Domestic Common Stocks
4.92%	Foreign Common Stocks
2.71%	Cash and Cash Equivalents

## Sector Weightings

As a shareholder of the Fund, for every \$100 you had invested on December 31, 2007, your Fund owned:



(1) Includes \$1.09 Business Equipment and Services Stocks, \$1.44 Raw Materials Stocks and \$0.75 Shelter Stocks.

# The Investments of Value Fund

December 31, 2007

(Unaudited)

COMMON STOCKS	Shares	Value
<b>Aircraft – 4.67%</b>		
Lockheed Martin Corporation .....	56,400	\$ 5,936,664
Raytheon Company .....	312,700	18,980,890
		<u>24,917,554</u>
<b>Banks – 4.49%</b>		
Bank of America Corporation .....	580,470	<u>23,950,192</u>
<b>Beverages – 0.96%</b>		
Diageo plc, ADR .....	59,900	<u>5,141,217</u>
<b>Business Equipment and Services – 1.09%</b>		
Waste Management, Inc. ....	178,800	<u>5,841,396</u>
<b>Capital Equipment – 2.06%</b>		
Illinois Tool Works Inc. ....	205,300	<u>10,991,762</u>
<b>Communications Equipment – 2.20%</b>		
Nokia Corporation, Series A, ADR .....	305,700	<u>11,735,823</u>
<b>Computers – Main and Mini – 7.11%</b>		
Hewlett-Packard Company .....	384,100	19,389,368
International Business Machines Corporation (A) .....	118,000	12,755,800
Xerox Corporation* .....	359,400	5,818,686
		<u>37,963,854</u>
<b>Computers – Peripherals – 0.49%</b>		
EMC Corporation* .....	140,900	<u>2,610,877</u>
<b>Containers – 0.75%</b>		
Pactiv Corporation* .....	150,600	<u>4,010,478</u>
<b>Defense – 1.06%</b>		
General Dynamics Corporation .....	63,400	<u>5,641,966</u>
<b>Finance Companies – 4.72%</b>		
Blackstone Group L.P. (The) .....	125,100	2,768,463
Capital One Financial Corporation (A) .....	215,200	10,170,352
Discover Financial Services .....	97,750	1,474,070
Fannie Mae .....	138,300	5,529,234
Freddie Mac .....	154,200	5,253,594
		<u>25,195,713</u>
<b>Food and Related – 3.22%</b>		
General Mills, Inc. ....	141,800	8,082,600
Kraft Foods Inc. ....	280,104	9,139,794
		<u>17,222,394</u>

See Notes to Schedule of Investments on page 37.

# The Investments of Value Fund

December 31, 2007

(Unaudited)

COMMON STOCKS (Continued)	Shares	Value
<b>Health Care – Drugs – 6.00%</b>		
Endo Pharmaceuticals Holdings Inc.* .....	306,600	\$ 8,183,154
McKesson Corporation .....	255,500	16,737,805
Pfizer Inc. ....	311,800	7,087,214
		<u>32,008,173</u>
<b>Health Care – General – 2.12%</b>		
AmerisourceBergen Corporation (A) .....	251,900	<u>11,302,753</u>
<b>Hospital Supply and Management – 5.31%</b>		
Aetna Inc. ....	175,300	10,120,069
Coventry Health Care, Inc.* .....	180,700	10,706,475
Humana Inc.* .....	99,600	7,500,876
		<u>28,327,420</u>
<b>Insurance – Property and Casualty – 4.75%</b>		
Everest Re Group, Ltd. ....	93,500	9,387,400
MBIA Inc. ....	60,600	1,128,978
Travelers Companies, Inc. (The) .....	275,683	14,831,745
		<u>25,348,123</u>
<b>Metal Fabrication – 1.77%</b>		
Loews Corporation, Carolina Group .....	110,600	<u>9,434,180</u>
<b>Mining – 1.08%</b>		
Freeport-McMoRan Copper & Gold Inc., Class B (A) ...	56,100	<u>5,746,884</u>
<b>Multiple Industry – 5.12%</b>		
Altria Group, Inc. ....	288,900	21,835,062
CVR Energy, Inc.* .....	221,100	5,514,234
		<u>27,349,296</u>
<b>Petroleum – International – 17.61%</b>		
Apache Corporation .....	83,700	9,001,098
Chevron Corporation .....	247,500	23,099,175
ConocoPhillips .....	212,300	18,746,090
Devon Energy Corporation .....	99,500	8,846,545
Exxon Mobil Corporation (A) .....	245,800	23,029,002
Marathon Oil Corporation .....	185,300	11,277,358
		<u>93,999,268</u>
<b>Railroad – 2.15%</b>		
Union Pacific Corporation .....	91,600	<u>11,506,792</u>
<b>Real Estate Investment Trust – 0.75%</b>		
Vornado Realty Trust .....	45,800	<u>4,028,110</u>

See Notes to Schedule of Investments on page 37.

# The Investments of Value Fund

December 31, 2007

(Unaudited)

COMMON STOCKS (Continued)	Shares	Value
<b>Retail – General Merchandise – 1.44%</b>		
Macy's Inc. ....	297,700	<u>\$ 7,701,499</u>
<b>Security and Commodity Brokers – 4.01%</b>		
Bear Stearns Companies Inc. (The) (A) .....	51,100	4,509,575
J.P. Morgan Chase & Co. ....	256,656	11,203,034
Morgan Stanley .....	107,500	5,709,325
		<u>21,421,934</u>
<b>Steel – 0.99%</b>		
Nucor Corporation .....	89,000	<u>5,270,580</u>
<b>Utilities – Electric – 7.67%</b>		
Mirant Corporation* .....	522,500	20,367,050
NRG Energy, Inc.* .....	474,800	20,577,832
		<u>40,944,882</u>
<b>Utilities – Telephone – 3.70%</b>		
Sprint Nextel Corporation .....	151,500	1,989,195
Verizon Communications Inc. ....	406,100	17,742,509
		<u>19,731,704</u>
<b>TOTAL COMMON STOCKS – 97.29%</b>		<b>\$519,344,824</b>
(Cost: \$432,261,249)		

	Principal Amount in Thousands	
<b>SHORT-TERM SECURITIES</b>		
<b>Beverages – 0.93%</b>		
Anheuser-Busch Companies, Inc., 3.75%, 1–2–08 .....	\$5,000	<u>4,999,479</u>
<b>Household – General Products – 0.63%</b>		
Fortune Brands Inc., 4.7%, 1–2–08 .....	3,360	<u>3,359,561</u>
<b>Motor Vehicles – 0.75%</b>		
Harley-Davidson Funding Corp., 4.17%, 2–4–08 .....	4,000	<u>3,984,247</u>
<b>Utilities – Electric – 0.47%</b>		
Wisconsin Electric Power Co., 4.5%, 1–2–08 .....	2,500	<u>2,499,688</u>
<b>TOTAL SHORT-TERM SECURITIES – 2.78%</b>		<b>\$ 14,842,975</b>
(Cost: \$14,842,975)		

See Notes to Schedule of Investments on page 37.

# The Investments of Value Fund

December 31, 2007

(Unaudited)

	Value
<b>TOTAL INVESTMENT SECURITIES – 100.07%</b>	<b>\$534,187,799</b>
(Cost: \$447,104,224)	
<b>LIABILITIES, NET OF CASH AND OTHER ASSETS – (0.07%)</b>	<b>(374,601)</b>
<b>NET ASSETS – 100.00%</b>	<b>\$533,813,198</b>

## Notes to Schedule of Investments

Certain acronyms may be used within the body of the Fund's holdings. The definitions of these acronyms are as follows: ADR – American Depositary Receipts; CMO – Collateralized Mortgage Obligation; GDR – Global Depositary Receipts; and REMIC – Real Estate Mortgage Investment Conduit.

\*No dividends were paid during the preceding 12 months.

(A) Securities serve as cover for the following written options outstanding at December 31, 2007. (See Note 6 to financial statements):

Underlying Security	Contracts Subject to Call	Expiration Month/ Exercise Price	Premium Received	Market Value
AmerisourceBergen Corporation	2,627	January/47	\$191,390	\$107,707
Exxon Mobil Corporation	252	January/105	34,523	1,260
			<u>\$225,913</u>	<u>\$108,967</u>
Underlying Security	Contracts Subject to Put	Expiration Month/ Exercise Price	Premium Received	Market Value
AmerisourceBergen Corporation	527	January/40	\$ 51,118	\$ 5,270
Bear Stearns Companies Inc. (The)	179	January/80	40,632	17,005
Bear Stearns Companies Inc. (The)	197	January/90	33,488	88,650
Capital One Financial Corporation	457	March/30	40,215	29,705
Freeport-McMoRan Copper & Gold Inc., Class B	219	January/75	30,003	1,533
International Business Machines Corporation	203	January/100	28,087	13,195
			<u>\$223,543</u>	<u>\$155,358</u>

See Note 1 to financial statements for security valuation and other significant accounting policies concerning investments.

See Note 3 to financial statements for cost and unrealized appreciation and depreciation of investments owned for Federal income tax purposes.

# Statement of Assets and Liabilities

## VALUE FUND

December 31, 2007

(In Thousands, Except for Per Share Amounts)

(Unaudited)

### ASSETS

Investment securities – at value (cost – \$447,104) (Notes 1 and 3) . . . . .	\$534,188
Cash . . . . .	1
Receivables:	
Investment securities sold . . . . .	4,608
Dividends and interest . . . . .	640
Fund shares sold . . . . .	625
Prepaid and other assets . . . . .	38
Total assets . . . . .	<u>540,100</u>

### LIABILITIES

Payable for investment securities purchased . . . . .	4,478
Payable to Fund shareholders . . . . .	1,226
Outstanding written options – at value (premium received – \$449) (Note 6) . . . . .	264
Accrued shareholder servicing (Note 2) . . . . .	141
Accrued service fee (Note 2) . . . . .	96
Accrued accounting services fee (Note 2) . . . . .	12
Accrued management fee (Note 2) . . . . .	10
Accrued distribution fee (Note 2) . . . . .	3
Other . . . . .	57
Total liabilities . . . . .	<u>6,287</u>
Total net assets . . . . .	<u>\$533,813</u>

### NET ASSETS

\$0.001 par value capital stock:	
Capital stock . . . . .	\$ 42
Additional paid-in capital . . . . .	450,250
Accumulated undistributed income (loss):	
Accumulated undistributed net investment income . . . . .	67
Accumulated undistributed net realized loss on investment transactions . . . . .	(3,815)
Net unrealized appreciation in value of investments . . . . .	87,269
Net assets applicable to outstanding units of capital . . . . .	<u>\$533,813</u>
Net asset value per share (net assets divided by shares outstanding):	
Class A . . . . .	\$12.61
Class B . . . . .	\$12.27
Class C . . . . .	\$12.35
Class Y . . . . .	\$12.61
Capital shares outstanding:	
Class A . . . . .	35,331
Class B . . . . .	3,344
Class C . . . . .	1,404
Class Y . . . . .	2,384
Capital shares authorized . . . . .	340,000

See Notes to Financial Statements.

# Statement of Operations

## VALUE FUND

For the Six Months Ended December 31, 2007

(In Thousands)

(Unaudited)

### INVESTMENT INCOME

Income (Note 1B):	
Dividends . . . . .	\$ 5,820
Interest and amortization . . . . .	356
Total income . . . . .	<u>6,176</u>
Expenses (Note 2):	
Investment management fee . . . . .	2,050
Shareholder servicing:	
Class A . . . . .	695
Class B . . . . .	103
Class C . . . . .	41
Class Y . . . . .	25
Service fee:	
Class A . . . . .	598
Class B . . . . .	59
Class C . . . . .	25
Distribution fee:	
Class A . . . . .	9
Class B . . . . .	177
Class C . . . . .	75
Accounting services fee . . . . .	79
Audit fees . . . . .	17
Custodian fees . . . . .	10
Legal fees . . . . .	8
Other . . . . .	125
Total . . . . .	<u>4,096</u>
Less waiver of investment management fee (Notes 2 and 7) . . . .	(29)
Total expenses . . . . .	<u>4,067</u>
Net investment income . . . . .	<u>2,109</u>

### REALIZED AND UNREALIZED GAIN (LOSS)

#### ON INVESTMENTS (NOTES 1 AND 3)

Realized net gain on securities . . . . .	21,693
Realized net loss on written options . . . . .	(3,298)
Realized net gain on investments . . . . .	<u>18,395</u>
Unrealized depreciation in value of securities during the period . . . . .	(57,027)
Unrealized depreciation in value of written options during the period . . . . .	(70)
Unrealized depreciation in value of investments during the period . . . . .	<u>(57,097)</u>
Net loss on investments . . . . .	<u>(38,702)</u>
Net decrease in net assets resulting from operations . . . . .	<u><u>\$(36,593)</u></u>

See Notes to Financial Statements.

# Statement of Changes in Net Assets

## VALUE FUND

(In Thousands)

(Unaudited)

	For the six months ended December 31, 2007	For the fiscal year ended June 30, 2007
<b>INCREASE (DECREASE) IN NET ASSETS</b>		
Operations:		
Net investment income . . . . .	\$ 2,109	\$ 4,743
Realized net gain on investments . . . . .	18,395	26,956
Unrealized appreciation (depreciation) . . . . .	(57,097)	84,763
Net increase (decrease) in net assets resulting from operations . . . . .	(36,593)	116,462
Distributions to shareholders from (Note 1E):(1)		
Net investment income:		
Class A . . . . .	(4,442)	(3,103)
Class B . . . . .	(36)	(—)
Class C . . . . .	(17)	(—)
Class Y . . . . .	(414)	(374)
Realized gains on investment transactions:		
Class A . . . . .	(33,799)	(29,437)
Class B . . . . .	(3,352)	(3,217)
Class C . . . . .	(1,377)	(1,374)
Class Y . . . . .	(2,236)	(2,188)
	(45,673)	(39,693)
Capital share transactions (Note 5) . . . . .	(8,977)	15,550
Total increase (decrease) . . . . .	(91,243)	92,319
<b>NET ASSETS</b>		
Beginning of period . . . . .	625,056	532,737
End of period . . . . .	<u>\$533,813</u>	<u>\$625,056</u>
Undistributed net investment income . . . . .	\$ 67	\$ 2,867

(1) See "Financial Highlights" on pages 41 - 44.

See Notes to Financial Statements.



# Financial Highlights

## VALUE FUND

Class A Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended	For the fiscal year ended June 30,				
	12-31-07	2007	2006	2005	2004	2003
Net asset value, beginning of period . . . . .	\$14.64	\$12.80	\$12.94	\$11.77	\$ 9.77	\$9.89
Income (loss) from investment operations:						
Net investment income . . . . .	0.06	0.13	0.11	0.14	0.06	0.05
Net realized and unrealized gain (loss) on investments. . . . .	(0.93)	2.71	0.58	1.12	1.99	(0.12)
Total from investment operations . . . . .	(0.87)	2.84	0.69	1.26	2.05	(0.07)
Less distributions from:						
Net investment income . .	(0.13)	(0.10)	(0.15)	(0.09)	(0.05)	(0.05)
Capital gains . . . . .	(1.03)	(0.90)	(0.68)	(0.00)	(0.00)	(0.00)
Total distributions . . . . .	(1.16)	(1.00)	(0.83)	(0.09)	(0.05)	(0.05)
Net asset value, end of period . . . . .	\$12.61	\$14.64	\$12.80	\$12.94	\$11.77	\$9.77
Total return <sup>(1)</sup>	-6.02%	22.82%	5.40%	10.69%	21.04%	-0.73%
Net assets, end of period (in millions) . . . . .	\$446	\$514	\$435	\$501	\$402	\$274
Ratio of expenses to average net assets including expense waiver . . . . .	1.31% <sup>(2)</sup>	1.31%	1.34%	1.34%	1.40%	1.45%
Ratio of net investment income to average net assets including expense waiver . . . . .	0.80% <sup>(2)</sup>	0.91%	0.78%	1.18%	0.60%	0.58%
Ratio of expenses to average net assets excluding expense waiver . . . . .	1.32% <sup>(2)</sup>	1.32%	1.34% <sup>(3)</sup>	1.34% <sup>(3)</sup>	1.40% <sup>(3)</sup>	1.45% <sup>(3)</sup>
Ratio of net investment income to average net assets excluding expense waiver . . . . .	0.79% <sup>(2)</sup>	0.90%	0.78% <sup>(3)</sup>	1.18% <sup>(3)</sup>	0.60% <sup>(3)</sup>	0.58% <sup>(3)</sup>
Portfolio turnover rate . . . . .	35%	38%	67%	46%	92%	118%

(1) Total return calculated without taking into account the sales load deducted on an initial purchase.

(2) Annualized.

(3) There was no waiver of expenses during the period.

See Notes to Financial Statements.

# Financial Highlights

## VALUE FUND

Class B Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended	For the fiscal year ended June 30,				
	12-31-07	2007	2006	2005	2004	2003
Net asset value, beginning of period . . . .	\$14.21	\$12.47	\$12.62	\$11.52	\$ 9.60	\$9.78
Income (loss) from investment operations:						
Net investment income (loss) . . . . .	(0.01)	(0.01)	(0.03)	0.03	(0.03)	(0.04)
Net realized and unrealized gain (loss) on investments . . . . .	(0.89)	2.65	0.58	1.07	1.95	(0.14)
Total from investment operations . . . . .	(0.90)	2.64	0.55	1.10	1.92	(0.18)
Less distributions from:						
Net investment income .	(0.01)	(0.00)	(0.02)	(0.00)	(0.00)	(0.00)
Capital gains . . . . .	(1.03)	(0.90)	(0.68)	(0.00)	(0.00)	(0.00)
Total distributions . . . . .	(1.04)	(0.90)	(0.70)	(0.00)	(0.00)	(0.00)
Net asset value, end of period . . . . .	\$12.27	\$14.21	\$12.47	\$12.62	\$11.52	\$9.60
Total return . . . . .	-6.44%	21.75%	4.41%	9.55%	20.00%	-1.84%
Net assets, end of period (in millions) . . . . .	\$41	\$51	\$47	\$54	\$49	\$34
Ratio of expenses to average net assets including expense waiver . . . . .	2.21% <sup>(1)</sup>	2.23%	2.28%	2.29%	2.39%	2.49%
Ratio of net investment income (loss) to average net assets including expense waiver . . . . .	-0.10% <sup>(1)</sup>	-0.00%	-0.15%	0.23%	-0.39%	-0.46%
Ratio of expenses to average net assets excluding expense waiver . . . . .	2.22% <sup>(1)</sup>	2.24%	2.28% <sup>(2)</sup>	2.29% <sup>(2)</sup>	2.39% <sup>(2)</sup>	2.49% <sup>(2)</sup>
Ratio of net investment income (loss) to average net assets excluding expense waiver . . . . .	-0.11% <sup>(1)</sup>	-0.01%	-0.15% <sup>(2)</sup>	0.23% <sup>(2)</sup>	-0.39% <sup>(2)</sup>	-0.46% <sup>(2)</sup>
Portfolio turnover rate . . . .	35%	38%	67%	46%	92%	118%

(1) Annualized.

(2) There was no waiver of expenses during the period.

See Notes to Financial Statements.

# Financial Highlights

## VALUE FUND

Class C Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended	For the fiscal year ended June 30,				
	12-31-07	2007	2006	2005	2004	2003
Net asset value, beginning of period . . . .	\$14.30	\$12.55	\$12.69	\$11.57	\$ 9.64	\$9.80
Income (loss) from investment operations:						
Net investment income (loss) . . . . .	(0.01)	(0.00)	(0.03)	0.04	(0.03)	(0.03)
Net realized and unrealized gain (loss) on investments . . . . .	(0.90)	2.65	0.60	1.08	1.96	(0.13)
Total from investment operations . . . . .	(0.91)	2.65	0.57	1.12	1.93	(0.16)
Less distributions from:						
Net investment income .	(0.01)	(0.00)	(0.03)	(0.00)	(0.00)	(0.00)
Capital gains . . . . .	(1.03)	(0.90)	(0.68)	(0.00)	(0.00)	(0.00)
Total distributions . . . . .	(1.04)	(0.90)	(0.71)	(0.00)	(0.00)	(0.00)
Net asset value, end of period . . . . .	\$12.35	\$14.30	\$12.55	\$12.69	\$11.57	\$9.64
Total return . . . . .	-6.45%	21.69%	4.53%	9.68%	20.02%	-1.73%
Net assets, end of period (in millions) . . . . .	\$17	\$22	\$20	\$27	\$22	\$17
Ratio of expenses to average net assets including expense waiver . . . . .	2.19% <sup>(1)</sup>	2.20%	2.24%	2.22%	2.29%	2.34%
Ratio of net investment income (loss) to average net assets including expense waiver . . . . .	-0.08% <sup>(1)</sup>	0.02%	-0.11%	0.31%	-0.29%	-0.31%
Ratio of expenses to average net assets excluding expense waiver . . . . .	2.20% <sup>(1)</sup>	2.21%	2.24% <sup>(2)</sup>	2.22% <sup>(2)</sup>	2.29% <sup>(2)</sup>	2.34% <sup>(2)</sup>
Ratio of net investment income (loss) to average net assets excluding expense waiver . . . . .	-0.09% <sup>(1)</sup>	0.01%	-0.11% <sup>(2)</sup>	0.31% <sup>(2)</sup>	-0.29% <sup>(2)</sup>	-0.31% <sup>(2)</sup>
Portfolio turnover rate . . . . .	35%	38%	67%	46%	92%	118%

(1) Annualized.

(2) There was no waiver of expenses during the period.

See Notes to Financial Statements.

# Financial Highlights

## VALUE FUND

Class Y Shares

For a Share of Capital Stock Outstanding Throughout Each Period:

(Unaudited)

	For the six months ended	For the fiscal year ended June 30,				
	12-31-07	2007	2006	2005	2004	2003
Net asset value, beginning of period . . . . .	\$14.67	\$12.83	\$12.97	\$11.80	\$ 9.79	\$9.91
Income (loss) from investment operations:						
Net investment income . .	0.11	0.18	0.15	0.19	0.11	0.09
Net realized and unrealized gain (loss) on investments . . . . .	(0.95)	2.71	0.59	1.12	2.01	(0.12)
Total from investment operations . . . . .	(0.84)	2.89	0.74	1.31	2.12	(0.03)
Less distributions from:						
Net investment income . .	(0.19)	(0.15)	(0.20)	(0.14)	(0.11)	(0.09)
Capital gains . . . . .	(1.03)	(0.90)	(0.68)	(0.00)	(0.00)	(0.00)
Total distributions . . . . .	(1.22)	(1.05)	(0.88)	(0.14)	(0.11)	(0.09)
Net asset value, end of period . . . . .	\$12.61	\$14.67	\$12.83	\$12.97	\$11.80	\$9.79
Total return . . . . .	-5.84%	23.28%	5.83%	11.16%	21.74%	-0.37%
Net assets, end of period (in millions) . . . . .	\$30	\$38	\$31	\$27	\$21	\$15
Ratio of expenses to average net assets including expense waiver . . . . .	0.92% <sup>(1)</sup>	0.91%	0.92%	0.92%	0.93%	0.94%
Ratio of net investment income to average net assets including expense waiver . . . . .	1.18% <sup>(1)</sup>	1.31%	1.19%	1.60%	1.06%	1.09%
Ratio of expenses to average net assets excluding expense waiver . . . . .	0.93% <sup>(1)</sup>	0.92%	0.92% <sup>(2)</sup>	0.92% <sup>(2)</sup>	0.93% <sup>(2)</sup>	0.94% <sup>(2)</sup>
Ratio of net investment income to average net assets excluding expense waiver . . . . .	1.17% <sup>(1)</sup>	1.30%	1.19% <sup>(2)</sup>	1.60% <sup>(2)</sup>	1.06% <sup>(2)</sup>	1.09% <sup>(2)</sup>
Portfolio turnover rate . . . . .	35%	38%	67%	46%	92%	118%

(1)Annualized.

(2)There was no waiver of expenses during the period.

See Notes to Financial Statements.

# Notes to Financial Statements

December 31, 2007

(Unaudited)

## NOTE 1 – Significant Accounting Policies

Waddell & Reed Advisors Select Funds, Inc. (the Corporation) is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The Corporation issues three series of capital shares; each series represents ownership of a separate mutual fund. The following is a summary of significant accounting policies consistently followed by the Funds in the preparation of their financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America.

- A. Security valuation** – Each stock and convertible bond is valued at the latest sale price thereof on each business day of the fiscal period as reported by the principal securities exchange on which the issue is traded or, if no sale is reported for a stock, the average of the latest bid and asked prices. Bonds, other than convertible bonds, are valued using a pricing system provided by a pricing service or dealer in bonds. Convertible bonds are valued using this pricing system only on days when there is no sale reported. Stocks which are traded over-the-counter are priced using the Nasdaq Stock Market, which provides information on bid and asked prices quoted by major dealers in such stocks. Securities for which quotations are not readily available or are deemed not to be reliable because of significant events or circumstances identified between the closing of their principal markets and the closing of the New York Stock Exchange are valued at fair value as determined in good faith under procedures established by and under the general supervision of the Corporation's Board of Directors. Management's valuation committee makes fair value determinations for the Corporation, subject to the supervision of the Board of Directors. Short-term debt securities, purchased with less than 60 days to maturity, are valued at amortized cost, which approximates market value. Short-term debt securities denominated in foreign currencies are valued at amortized cost in that currency.
- B. Security transactions and related investment income** – Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Securities gains and losses are calculated on the identified cost basis. Premium and discount on the purchase of bonds are amortized for both financial and tax reporting purposes over the remaining lives of the bonds. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Corporation is informed of the ex-dividend date. Interest income is recorded on the accrual basis. See Note 3 – Investment Securities Transactions.
- C. Foreign currency translations** – All assets and liabilities denominated in foreign currencies are translated into U.S. dollars daily. Purchases and sales of investment securities and accruals of income and expenses are translated at the rate of exchange prevailing on the date of the transaction. For assets and liabilities other than investments in securities, net realized and unrealized gains and losses from foreign currency translations arise from changes in currency exchange rates. The Corporation combines fluctuations from currency exchange rates and fluctuations in market value when computing net realized and unrealized gain or loss from investments.
- D. Federal income taxes** – It is the Corporation's policy to distribute all of its taxable income and capital gains to its shareholders and otherwise qualify as a regulated investment company under Subchapter M of the Internal Revenue Code. In addition, the Corporation intends to pay distributions as required to avoid imposition of excise tax. Accordingly, provision has not been made for Federal income taxes. See Note 4 – Federal Income Tax Matters.

**E. Dividends and distributions** – Dividends and distributions to shareholders are recorded by each Fund on the business day following record date. Net investment income dividends and capital gains distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences are due to differing treatments for items such as deferral of wash sales and post-October losses, foreign currency transactions, net operating losses and expiring capital loss carryovers.

**f. New Accounting Pronouncements** – During the year ending June 30, 2008, the Corporation adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (FIN 48) with the impact of such adoption being recognized on December 31, 2007 in accordance with guidance provided by the Securities and Exchange Commission. The adoption of FIN 48 did not have a material effect on the net asset value, financial condition or results of operations of the Corporation as there was no liability required for the recognition of unrecognized tax benefits during the year, nor were there any such liabilities to be recorded to the beginning net asset value of the Corporation. The Corporation is subject to examination by U.S. federal, state and foreign tax authorities for returns filed for years after 2003.

In September 2006, FASB issued Statement on Financial Accounting Standards (SFAS) No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value for purposes of financial statement presentation, establishes a hierarchy for measuring fair value in accordance with generally accepted accounting principles and expands financial statement disclosures about fair value measurements that are relevant to mutual funds. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Corporation will adopt SFAS No. 157 during 2008 and its potential impact, if any, on its financial statements is currently being assessed by management.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

## NOTE 2 – Investment Management and Payments to Affiliated Persons

Waddell & Reed Investment Management Company (WRIMCO), a wholly owned subsidiary of Waddell & Reed, Inc. (W&R), serves as the Corporation's investment manager. The Corporation pays a fee for investment management services. The fee is computed and paid daily based on the net asset value at the close of business. The fee is payable by each Fund at the annual rates of:

Fund	Net Asset Breakpoints	Annual Rate
Dividend Income Fund	Up to \$1 Billion	0.70%
	Over \$1 Billion up to \$2 Billion	0.65%
	Over \$2 Billion up to \$3 Billion	0.60%
	Over \$3 Billion	0.55%
Energy Fund	Up to \$1 Billion	0.85%
	Over \$1 Billion up to \$2 Billion	0.83%
	Over \$2 Billion up to \$3 Billion	0.80%
	Over \$3 Billion	0.76%

<b>Fund</b>	<b>Net Asset Breakpoints</b>	<b>Annual Rate</b>
Value Fund	Up to \$1 Billion	0.70%
	Over \$1 Billion up to \$2 Billion	0.65%
	Over \$2 Billion up to \$3 Billion	0.60%
	Over \$3 Billion	0.55%

Effective October 1, 2006, under terms of a settlement agreement reached in July 2006 (see Note 7), the fee for Value Fund is payable as follows:

<b>Fund</b>	<b>Net Asset Breakpoints</b>	<b>Annual Rate</b>
Value Fund	Up to \$1 Billion	0.69%
	Over \$1 Billion up to \$2 Billion	0.65%
	Over \$2 Billion up to \$3 Billion	0.60%
	Over \$3 Billion	0.55%

During the six-month period ended December 31, 2007, the investment management fee waived (in thousands) for Value Fund was \$29.

WRIMCO has voluntarily agreed to waive its management fee on any day if a Fund's net assets are less than \$25 million, subject to WRIMCO's right to change or modify this waiver.

The Corporation has an Accounting Services Agreement with Waddell & Reed Services Company (WRSCO), a wholly owned subsidiary of W&R. Under the agreement, WRSCO acts as the agent in providing accounting services and assistance to the Corporation and pricing daily the value of shares of each Fund. For these services, each Fund pays WRSCO a monthly fee of one-twelfth of the annual fee shown in the following table:

<b>Accounting Services Fee</b>	
<b>Average Net Asset Level (in millions)</b>	<b>Annual Fee Rate for Each Level</b>
From \$ 0 to \$ 10	\$ 0
From \$ 10 to \$ 25	\$ 11,500
From \$ 25 to \$ 50	\$ 23,100
From \$ 50 to \$ 100	\$ 35,500
From \$100 to \$ 200	\$ 48,400
From \$200 to \$ 350	\$ 63,200
From \$350 to \$ 550	\$ 82,500
From \$550 to \$ 750	\$ 96,300
From \$750 to \$1,000	\$121,600
\$1,000 and Over	\$148,500

In addition, for each class of shares in excess of one, each Fund pays WRSCO a monthly per-class fee equal to 2.5% of the monthly accounting services base fee.

Each Fund also pays monthly a fee at the annual rate of 0.01% or one basis point for the first \$1 billion of net assets with no fee charged for net assets in excess of \$1 billion.

For Class A, Class B and Class C shares, each Fund pays WRSCO a monthly per account charge for shareholder servicing as follows: Dividend Income Fund – \$1.5792; Energy Fund and Value Fund – \$1.5042 for each shareholder account which was non-networked and which was in existence at any time during the prior month; however, WRSCO has agreed to reduce that fee if the number of total shareholder accounts within the Complex (Waddell & Reed Advisors Funds, Waddell & Reed InvestEd Portfolios, Inc., Ivy Funds and Ivy Funds, Inc.) reaches certain levels. For certain networked accounts (that is, those shareholder accounts whose Fund shares are

purchased through certain financial intermediaries), WRSCO has agreed to reduce its per account fees charged to the Fund to \$0.50 per month per shareholder account. Additional fees may be paid by the Fund to those intermediaries. For Class Y shares, each Fund pays WRSCO a monthly fee equal to one-twelfth of 0.15 of 1% of the average daily net assets of Class Y of the Fund for the preceding month. Each Fund also reimburses W&R and WRSCO for certain out-of-pocket costs for all classes.

As principal underwriter for the Corporation's shares, W&R receives gross sales commissions (which are not an expense of the Corporation) for Class A shares. A contingent deferred sales charge (CDSC) may be assessed against a shareholder's redemption amount of Class A, Class B and Class C shares and is paid to W&R. During the six-month period ended December 31, 2007, W&R received the following amounts in gross sales commissions and CDSC:

	Gross Sales Commissions	CDSC		
		Class A	Class B	Class C
Dividend Income Fund . . . . .	\$1,106,307	\$165	\$ 7,871	\$1,030
Energy Fund . . . . .	427,862	—	2,115	118
Value Fund . . . . .	400,877	469	12,516	678

With respect to Class A, Class B and Class C shares, W&R pays sales commissions and all expenses in connection with the sale of the Corporation's shares, except for registration fees and related expenses. During the six-month period ended December 31, 2007, W&R paid the following amounts: Dividend Income Fund – \$701,111, Energy Fund – \$278,039 and Value Fund – \$256,207.

Under a Distribution and Service Plan for Class A shares adopted by the Corporation pursuant to Rule 12b–1 under the Investment Company Act of 1940, each Fund may pay a distribution and/or service fee to W&R in an amount not to exceed 0.25% of the Fund's Class A average annual net assets. The fee is to be paid to reimburse W&R for amounts it expends in connection with the distribution of the Class A shares and/or provision of personal services to Fund shareholders and/or maintenance of shareholder accounts.

Under the Distribution and Service Plan adopted by the Corporation for Class B and Class C shares, respectively, each Fund may pay W&R a service fee of up to 0.25%, on an annual basis, of the average daily net assets of the class to compensate W&R for providing services to shareholders of that class and/or maintaining shareholder accounts for that class and a distribution fee of up to 0.75%, on an annual basis, of the average daily net assets of the class to compensate W&R for distributing the shares of that class.

During the six-month period ended December 31, 2007, the Corporation paid Directors' fees of \$37,540, which is included in other expenses.

W&R is a subsidiary of Waddell & Reed Financial, Inc., a public holding company, and a direct subsidiary of Waddell & Reed Financial Services, Inc., a holding company.



### NOTE 3 – Investment Securities Transactions

Investment securities transactions for the six-month period ended December 31, 2007 are summarized as follows:

	Dividend Income Fund	Energy Fund	Value Fund
Purchases of investment securities, excluding short-term and U.S. government obligations . . . .	\$ 93,016,097	\$ 32,384,998	\$197,009,441
Purchases of short-term securities . .	1,886,696,420	732,979,985	710,279,792
Purchases of options . . . . .	—	—	206,398
Proceeds from maturities and sales of investment securities, excluding short-term and U.S. government obligations . . . .	15,246,714	6,680,398	246,531,047
Proceeds from maturities and sales of short-term securities . . . . .	1,902,712,156	727,802,921	717,226,526
Proceeds from maturities and sales of options . . . . .	—	—	120,842

For Federal income tax purposes, cost of investments owned at December 31, 2007 and the related appreciation (depreciation) were as follows:

	Cost	Appreciation	Depreciation	Aggregate Appreciation
Dividend Income Fund . . . . .	\$545,158,291	\$206,164,793	\$22,700,200	\$183,464,593
Energy Fund . . . . .	151,578,188	69,062,041	2,971,772	66,090,269
Value Fund . . . . .	448,514,610	110,143,878	24,470,689	85,673,189

### NOTE 4 – Federal Income Tax Matters

For Federal income tax purposes, the Funds' distributed and undistributed earnings and profit for the fiscal year ended June 30, 2007 and the related net capital losses and post-October activity were as follows:

	Dividend Income Fund	Energy Fund	Value Fund
Net ordinary income . . . . .	\$ 5,782,474	\$ —	\$14,968,607
Distributed ordinary income . . . . .	5,722,831	—	7,094,055
Undistributed ordinary income* . . . . .	332,363	—	13,151,087
Realized long-term capital gains . . . . .	10,995,061	—	17,883,169
Distributed long-term capital gains . . . .	7,652,457	—	32,599,483
Undistributed long-term capital gains* . .	10,007,700	—	9,609,099

Net capital losses . . . . . — — —

Post-October losses deferred . . . . . — 958,095 —

\*This entire amount was distributed prior to December 31, 2007.

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Internal Revenue Code regulations permit each Fund to defer into its next fiscal year net capital losses or net long-term capital losses and net foreign currency losses incurred between each November 1 and the end of its fiscal year (post-October losses).

## **NOTE 5 – Multiclass Operations**

Each Fund currently offers four classes of shares, Class A, Class B, Class C and Class Y, each of which have equal rights as to assets and voting privileges. Class Y shares are not subject to a sales charge on purchases, are not subject to a Rule 12b–1 Distribution and Service Plan and are subject to a separate shareholder servicing fee structure. A comprehensive discussion of the terms under which shares of each class are offered is contained in the Prospectus and the Statement of Additional Information for the Fund.

Income, non-class specific expenses, and realized and unrealized gains and losses are allocated daily to each class of shares based on the value of their relative net assets as of the beginning of each day adjusted for the prior day's capital share activity.

Transactions in capital stock for the six-month period ended December 31, 2007 are summarized below. Amounts are in thousands.

	<b>Dividend Income Fund</b>	<b>Energy Fund</b>	<b>Value Fund</b>
Shares issued from sale of shares:			
Class A . . . . .	6,478	3,061	2,977
Class B . . . . .	205	66	86
Class C . . . . .	168	76	56
Class Y . . . . .	44	38	58
Shares issued from reinvestment of dividends and/or capital gains distribution:			
Class A . . . . .	713	—	2,920
Class B . . . . .	28	—	262
Class C . . . . .	22	—	108
Class Y . . . . .	18	—	208
Shares redeemed:			
Class A . . . . .	(2,972)	(914)	(5,643)
Class B . . . . .	(254)	(59)	(608)
Class C . . . . .	(186)	(48)	(292)
Class Y . . . . .	(112)	(27)	(506)
Increase (decrease) in outstanding capital shares . . . . .	<u>4,152</u>	<u>2,193</u>	<u>(374)</u>
Value issued from sale of shares:			
Class A . . . . .	\$112,057	\$41,894	\$41,722
Class B . . . . .	3,539	894	1,164
Class C . . . . .	2,900	1,036	761
Class Y . . . . .	757	515	823
Value issued from reinvestment of dividends and/or capital gains distribution:			
Class A . . . . .	12,539	—	37,262
Class B . . . . .	501	—	3,251
Class C . . . . .	391	—	1,351
Class Y . . . . .	323	—	2,648
Value redeemed:			
Class A . . . . .	(51,277)	(12,406)	(78,746)
Class B . . . . .	(4,392)	(830)	(8,097)
Class C . . . . .	(3,211)	(637)	(3,963)
Class Y . . . . .	(1,908)	(362)	(7,153)
Increase (decrease) in outstanding capital . . . . .	<u>\$ 72,219</u>	<u>\$30,104</u>	<u>\$ (8,977)</u>

Transactions in capital stock for the fiscal year ended June 30, 2007 are summarized below. Amounts are in thousands.

	Dividend Income Fund	Energy Fund	Value Fund
Shares issued from sale of shares:			
Class A . . . . .	12,185	3,633	6,122
Class B . . . . .	588	134	364
Class C . . . . .	493	107	198
Class Y . . . . .	139	128	268
Shares issued from reinvestment of dividends and/or capital gains distribution:			
Class A . . . . .	767	—	2,362
Class B . . . . .	29	—	243
Class C . . . . .	24	—	101
Class Y . . . . .	26	—	190
Shares redeemed:			
Class A . . . . .	(4,363)	(2,832)	(7,414)
Class B . . . . .	(261)	(95)	(784)
Class C . . . . .	(283)	(173)	(362)
Class Y . . . . .	(80)	(99)	(200)
Increase in outstanding capital shares . . . . .	9,264	803	1,088
Value issued from sale of shares:			
Class A . . . . .	\$ 189,320	\$38,086	\$ 85,506
Class B . . . . .	9,076	1,392	4,928
Class C . . . . .	7,569	1,099	2,697
Class Y . . . . .	2,159	1,330	3,682
Value issued from reinvestment of dividends and/or capital gains distribution:			
Class A . . . . .	11,909	—	31,889
Class B . . . . .	440	—	3,196
Class C . . . . .	372	—	1,343
Class Y . . . . .	409	—	2,560
Value redeemed:			
Class A . . . . .	(68,334)	(29,525)	(102,076)
Class B . . . . .	(4,057)	(978)	(10,506)
Class C . . . . .	(4,397)	(1,786)	(4,876)
Class Y . . . . .	(1,239)	(1,001)	(2,793)
Increase in outstanding capital . . . . .	\$ 143,227	\$ 8,617	\$ 15,550

## NOTE 6 – Options

Options purchased by a Fund are accounted for in the same manner as marketable portfolio securities. The cost of portfolio securities acquired through the exercise of call options is increased by the premium paid to purchase the call. The proceeds from securities sold through the exercise of put options are decreased by the premium paid to purchase the put.

When a Fund writes (sells) an option, an amount equal to the premium received by the Fund is recorded as a liability. The amount of the liability is subsequently adjusted to reflect the current market value of the option written. The current market value of an option is the last sales price on the principal exchange on which the option is traded or, in the absence of transactions, the mean between the bid and asked prices or a value supplied by a broker-dealer. When an option expires on its stipulated expiration date or a Fund enters into a closing purchase transaction, the Fund realizes a gain (or loss if the cost of a closing purchase transaction exceeds the premium received when the call option was sold) and the liability related to such option is extinguished. When a written call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Fund has realized a gain or loss. For a Fund, when a written put option is exercised, the cost basis of the securities purchased by the Fund is reduced by the amount of the premium received.

For Value Fund, transactions in written call options were as follows:

	<b>Number of Contracts</b>	<b>Premium Received</b>
Outstanding at June 30, 2007 .....	6,384	\$ 460,444
Options written .....	7,962	735,688
Options terminated in closing purchase transactions .....	(2,905)	(183,729)
Options exercised .....	(574)	(78,637)
Options expired .....	(7,988)	(707,853)
Outstanding at December 31, 2007 .....	<u>2,879</u>	<u>\$ 225,913</u>

For Value Fund, transactions in written put options were as follows:

	<b>Number of Contracts</b>	<b>Premium Received</b>
Outstanding at June 30, 2007 .....	3,789	\$ 284,273
Options written .....	11,819	1,758,246
Options terminated in closing purchase transactions .....	(5,546)	(1,146,539)
Options exercised .....	(3,895)	(373,999)
Options expired .....	(4,385)	(298,438)
Outstanding at December 31, 2007 .....	<u>1,782</u>	<u>\$ 223,543</u>

## NOTE 7 – Regulatory and Litigation Matters

On July 24, 2006, WRIMCO, W&R and WRSCO (collectively, Waddell & Reed) reached a settlement with each of the SEC, the New York Attorney General (NYAG) and the Securities Commissioner of the State of Kansas to resolve proceedings brought by each regulator in connection with its investigation of frequent trading and market timing in certain Waddell & Reed Advisors Funds.

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Under the terms of the SEC's cease-and desist order (SEC Order), pursuant to which Waddell & Reed neither admitted nor denied any of the findings contained therein, among other provisions Waddell & Reed has agreed to: pay \$40 million in disgorgement and \$10 million in civil money penalties; cease and desist from violations of the antifraud provisions and certain other provisions of the federal securities laws; maintain certain compliance and ethics oversight structures; retain an independent consultant to periodically review Waddell & Reed's supervisory, compliance, control and other policies and procedures; and retain an independent distribution consultant (described below). According to the SEC Order, the SEC found that some market timers made profits in some of the Waddell & Reed Advisors Funds, and that this may have caused some dilution in those Funds. Also, the SEC found that Waddell & Reed failed to make certain disclosures to the Waddell & Reed Advisors Funds' Boards of Directors and shareholders regarding the market timing activity and Waddell & Reed's acceptance of service fees from some market timers.

The Assurance of Discontinuance with the NYAG (NYAG Settlement), pursuant to which Waddell & Reed neither admitted nor denied any of the findings contained therein, among its conditions requires that Waddell & Reed: reduce the aggregate investment management fees paid by certain of the Waddell & Reed Advisors Funds and certain of the W&R Target Funds, Inc. (the Funds) by \$5 million per year for five years, for a projected total of \$25 million in investment management fee reductions; bear the costs of an independent fee consultant to be retained by the Funds to review and consult regarding the Funds' investment management fee arrangements; and make additional investment management fee-related disclosures to Fund shareholders. The NYAG Settlement also effectively requires that the Funds implement certain governance measures designed to maintain the independence of the Funds' Boards of Directors and appoint an independent compliance consultant responsible for monitoring the Funds' and WRIMCO's compliance with applicable laws.

The consent order issued by the Securities Commissioner of the State of Kansas (Kansas Order), pursuant to which Waddell & Reed neither admitted nor denied any of the findings contained therein, requires Waddell & Reed to pay a fine of \$2 million to the Office of the Commissioner.

The SEC Order further requires that the \$50 million in settlement amounts described above will be distributed in accordance with a distribution plan developed by an independent distribution consultant, in consultation with Waddell & Reed, and that is agreed to by the SEC staff and the Funds' Disinterested Directors. The SEC Order requires that the independent distribution consultant develop a methodology and distribution plan pursuant to which Fund shareholders shall receive their proportionate share of losses, if any, suffered by the Funds due to market timing. Therefore, it is not currently possible to specify which particular Fund shareholders or groups of Fund shareholders will receive distributions of those settlement monies or in what proportion and amounts.

The foregoing is only a summary of the SEC Order, NYAG Settlement and Kansas Order. A copy of the SEC Order is available on the SEC's website at [www.sec.gov](http://www.sec.gov). A copy of the SEC Order, NYAG Settlement and Kansas Order is available as part of the Waddell & Reed Financial, Inc. Form 8-K as filed on July 24, 2006.

In addition, pursuant to the terms of agreement in the dismissal of separate litigation, Waddell & Reed has also agreed to extend the reduction in the aggregate investment management fees paid by the Funds, as described above, for an additional five years.

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# Renewal of Investment Management Agreement for Waddell & Reed Advisors Select Funds, Inc.

At its meeting on August 13, 14 and 15, 2007, the Corporation's Board of Directors, including all of the Disinterested Directors, considered and approved the continuance of the existing Investment Management Agreement ("Management Agreement") between WRIMCO and the Corporation with respect to each Fund. The Disinterested Directors were assisted in their review by independent legal counsel and met with such counsel separately from representatives of WRIMCO. The Disinterested Directors also received and considered a memorandum from their independent legal counsel regarding the Disinterested Directors' responsibilities in evaluating the Management Agreement for each Fund. This memorandum explained the regulatory requirements pertaining to the Disinterested Directors' evaluation of the Management Agreement. In addition, the Disinterested Directors engaged an independent fee consultant whose responsibilities included managing the process by which the proposed management fees under the Management Agreement were negotiated with WRIMCO.

Prior to the Board meeting, independent legal counsel sent to WRIMCO a request for information to be provided to the Directors in connection with their consideration of the continuance of the Management Agreement with respect to each Fund. WRIMCO provided materials to the Directors that included responses to the request letter and other information WRIMCO believed was useful in evaluating the continuation of the Management Agreement. Thereafter, independent legal counsel sent to WRIMCO a supplemental request for certain additional information, and WRIMCO provided additional information in response to this request (the "Supplemental Response"). The Directors also received reports prepared by an independent third party, Lipper Inc. ("Lipper"), relating to each Fund's performance and expenses compared to the performance of the universe of comparable mutual funds selected by Lipper (the "Performance Universe") and to the expenses of a peer group of comparable funds selected by Lipper (the "Peer Group"), respectively. Further, the Directors received a written evaluation from the independent fee consultant, a summary of which is included in this Semiannual Report. At their meeting, the Directors received a presentation from representatives of WRIMCO regarding services provided by it and its affiliates (collectively, "W&R") to each Fund. In addition, during the course of the year, WRIMCO had provided information relevant to the Directors' consideration of the continuance of the Management Agreement with respect to each Fund.

## **Nature, Extent and Quality of Services Provided to the Funds**

The Directors considered the nature, extent and quality of the services provided to each Fund pursuant to the Management Agreement and also the overall fairness of the Management Agreement as to each Fund.

The Directors considered WRIMCO's research and portfolio management capabilities and that W&R also provides oversight of day-to-day fund operations, including but not limited to fund accounting and administration and assistance in meeting legal and regulatory requirements. The Directors also considered WRIMCO's practices regarding the selection and compensation of brokers and dealers that execute portfolio transactions for each Fund, those brokers' and dealers' provision of brokerage and research services to WRIMCO, and the benefits derived by the other funds in the Advisors Fund Complex and by other clients of WRIMCO from such services. The Directors also considered the favorable history, reputation, qualification and background of WRIMCO and W&R's extensive administrative, accounting and compliance infrastructure.

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**Fund Performance, Management Fee and Expense Ratio.** The Directors considered each Fund's performance, both on an absolute basis and in relation to the performance of its Performance Universe. Each Fund's performance was also compared to relevant market indices and to a Lipper index, as applicable.

The Directors considered the management fees and total expenses of each Fund and also considered each Fund's management fees and total expenses in relation to the management fees and total expenses, respectively, of its Peer Group. The Directors' review also included consideration of each Fund's management fees at various asset levels, which reflected breakpoints in the management fee structure, and average account size information. In addition, the Directors considered, for each Fund, the investment management fees, if any, paid to WRIMCO (or its affiliate) by other mutual funds managed by WRIMCO (or its affiliate) with a similar investment objective and similar investment policies and strategies as the Fund ("Similar Funds"). The Directors also considered, for each Fund, the subadvisory fees, if any, paid to WRIMCO (or its affiliate) by other mutual funds advised by WRIMCO (or its affiliate), as well as the management fees, if any, paid by other client accounts managed by WRIMCO (or its affiliate), with a similar investment objective and similar investment policies and strategies as the Fund ("Other Accounts").

## **Additional Considerations with Respect to Each Fund**

### **Waddell & Reed Advisors Dividend Income Fund**

The Directors considered that Waddell & Reed Advisors Dividend Income Fund's total return performance was higher than the Performance Universe median and the Lipper index for the three-year period for which information was provided, since the Fund did not have a five-year performance record as of April 30, 2007. The Directors considered the information provided by WRIMCO in its Supplemental Response explaining that the Fund's one-year performance was adversely affected primarily by WRIMCO's emphasis on investing in companies with strong fundamentals, the market's shift from material, energy and industrial stocks, in which the Fund was overweighted, to consumer stocks, and poor stock selection in certain sectors and explaining also that the Fund's performance had improved for the year-to-date period through July 19, 2007.

The Directors considered the range and average of the management fees and expense ratios of the Peer Group. They considered that the Fund's management fee and overall expense ratio were higher than the Peer Group median. They considered that the Fund's non-management fee expenses were higher than the Peer Group median on an unadjusted basis but that, when adjusted for the Fund's smaller average account size, the non-management fee expenses were lower than the Peer Group median. The Directors considered the transfer agency fee reduction that became effective September 1, 2006. They also considered that, with the breakpoints in the fee schedule, the Fund's effective management fees at various asset levels were higher than the asset-weighted average for its Peer Group.

The Directors also considered that the Similar Funds had advisory fee schedules that were the same as the Fund's advisory fee schedule and that the Other Accounts had average advisory fees that were higher than the management fee of the Fund. The Directors considered the relevance of the fee information provided for the Similar Funds and Other Accounts to evaluate the appropriateness and reasonableness of the Fund's management fee.

### **Waddell & Reed Advisors Energy Fund**

The Directors considered that Waddell & Reed Advisors Energy Fund's total return performance was lower than the Performance Universe median and the Lipper index for the one-year period for which information was provided, since the Fund did not have a three-year performance record as of April 30, 2007.



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The Directors considered the range and average of the management fees and expense ratios of the Peer Group. They considered that the Fund's management fee was equal to the Peer Group median and that the overall expense ratio was higher than the Peer Group median. They considered that the Fund's non-management fee expenses were higher than the Peer Group median on an unadjusted basis and that, when adjusted for the Fund's smaller average account size, the non-management fee expenses were higher than the Peer Group median. The Directors considered the transfer agency fee reduction that became effective September 1, 2006. They also considered that, with the breakpoints in the fee schedule, the Fund's effective management fees at various asset levels were higher than the asset-weighted average for its Peer Group.

The Directors also considered that the Similar Funds had an advisory fee schedule that was the same as the Fund's advisory fee schedule and that there were no Other Accounts managed by WRIMCO or its affiliates with a similar investment objective and similar investment policies and strategies as the Fund. The Directors considered the relevance of the fee information provided for the Similar Funds to evaluate the appropriateness and reasonableness of the Fund's management fee.

#### **Waddell & Reed Advisors Value Fund**

The Directors considered that Waddell & Reed Advisors Value Fund's total return performance was higher than the Performance Universe median and the Lipper index for the one- and five-year periods.

The Directors considered the range and average of the management fees and expense ratios of the Peer Group. They considered that the Fund's management fee was lower than the Peer Group median and that the overall expense ratio was higher than the Peer Group median. They considered that the Fund's non-management fee expenses were higher than the Peer Group median on an unadjusted basis and that, when adjusted for the Fund's smaller average account size, the non-management fee expenses were higher than the Peer Group median. The Directors also considered the information in WRIMCO's Supplemental Response explaining that the Fund's higher average-account-size-weighted non-management fee expenses were primarily attributable to its relatively higher transfer agency expenses on a per-account basis. They further considered that, with the breakpoints in the fee schedule, the Fund's effective management fees at various asset levels were higher than the asset-weighted average for its Peer Group.

The Directors also considered that the Similar Funds had advisory fee schedules that were the same as or higher than the Fund's advisory fee schedule and that the Other Accounts had average advisory fees that were lower than the management fee of the Fund. The Directors considered the relevance of the fee information provided for the Similar Funds and Other Accounts to evaluate the appropriateness and reasonableness of the Fund's management fee. The Directors recognized that differences in fees paid by the Other Accounts were consistent with the additional management and other services provided by WRIMCO to the Fund.

#### **Profitability and Economies of Scale**

The Directors also considered that each Fund's management fee structure includes breakpoints that provide for a reduction of payments to reflect anticipated economies of scale. The Directors also considered the management fee rate reductions that became effective October 1, 2006, for Waddell & Reed Advisors Value Fund and certain other funds in the Advisors Fund Complex, and the anticipated impact of the fee rate reduction for the Fund on its investment management fees and overall expense ratio. In concluding that the benefits accruing to WRIMCO and its affiliates by virtue of their relationship to a Fund were reasonable in comparison with the costs of providing the investment management services and the benefits accruing to the Fund, the Directors considered specific data as to WRIMCO's profit with respect to the Fund for a recent period. The Directors also considered WRIMCO's methodology for determining this data. In

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addition, the Directors considered the soft dollar arrangements with respect to each Fund's portfolio transactions.

In determining whether to approve the proposed continuance of the Management Agreement as to a Fund, the Directors considered the best interests of the Fund and the overall fairness of the proposed Management Agreement. The Directors considered the following factors to be of primary importance to their approval of the continuance of the Management Agreement as to a Fund, without any one factor being dispositive:

- the performance of the Fund compared with the average performance of its Performance Universe and with relevant indices;
- the Fund's investment management fees and total expenses compared with the management fees and total expenses of the Peer Group;
- the existence or appropriateness of breakpoints in the Fund's management fees;
- the cost/profitability to WRIMCO and any actual or anticipated economies of scale in relation to the services it provides to the Fund;
- the other benefits that accrue to WRIMCO as a result of its relationship to the Fund; and
- the favorable history, reputation, qualification and background of WRIMCO as well as the qualifications of its personnel.

Based on the discussions, considerations and information described generally above, including the evaluation provided by the independent fee consultant, the Board determined that each Fund's Management Agreement is fair and reasonable and that continuance of the Management Agreement was in the best interests of the Fund. In reaching these determinations as to each Fund, the Board concluded that: the nature, extent and quality of the services provided by WRIMCO for the Fund are adequate and appropriate; it retained confidence in WRIMCO's overall ability to manage the Fund; and the management fee paid to WRIMCO was reasonable in light of comparative management fee information, the breakpoints in the proposed management fee for the Fund, the services provided by WRIMCO, the costs of the services provided, and the profits realized and other benefits likely to be derived by WRIMCO from its relationship with the Fund.

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The Disinterested Directors of the Corporation have appointed an independent fee consultant. Below is a summary of the written fee evaluation of such consultant for the most recent year.

## Overview

Waddell & Reed, Inc. (W&R), Waddell & Reed Investment Management Company (WRIMCO) and Waddell & Reed Services Company (WRSCO) (collectively, Waddell) agreed on July 19, 2006 to the New York Attorney General Assurance of Discontinuance (AOD). Among other things, the AOD stipulates that WRIMCO may manage or advise a mutual fund for Waddell & Reed Advisors Funds (Advisors Funds), W&R Target Funds, Inc. (Target Funds), or Waddell & Reed InvestEd Portfolios, Inc. (InvestEd Portfolios) (collectively, Funds) only if the Disinterested Directors of the Fund's Board appoint a Senior Officer or an Independent Fee Consultant (IFC), who is to manage the process by which proposed management fees are negotiated. The AOD further stipulates that the Senior Officer or IFC is to prepare a written annual evaluation for use by the Funds' Boards of Directors in evaluating the reasonableness of the proposed management fees for the Funds.

On August 22, 2006, the Disinterested Directors retained me as IFC for the Funds. In this capacity, I have prepared the first annual written evaluation of the proposed management fees for the Funds.

## Role of the IFC

The AOD charges the IFC with managing the process by which the proposed management fees (including, but not limited to, advisory fees) to be charged to the Funds are negotiated in a manner which is at an arm's length and reasonable and consistent with the AOD. In this role, the IFC does not replace the Directors in negotiating management fees with WRIMCO and the IFC does not substitute his or her judgment for that of the Directors about the reasonableness of the proposed fees. As the AOD states, "Waddell may manage or advise a Fund after October 1, 2006 only if the reasonableness of the proposed management fees is determined by the Board of Directors of the Funds using an annual independent written evaluation prepared by or under the direction of a Senior Officer or the Independent Fee Consultant...".

In addition, the AOD requires that the IFC keep the Funds' Boards of Directors fully and promptly informed of the fee evaluation process and that Waddell cooperate fully with the IFC and provide any information requested by the IFC that relates to the IFC's fee evaluation.

## Factors Involved in the IFC's Written Evaluation

The AOD stipulates that the IFC's written evaluation must address at least six factors:

1. The nature and quality of Waddell's services, including Fund performance
2. Management fees (including any components thereof) charged by other mutual fund companies for like services
3. Management fees (including any components thereof) charged to institutional and other clients of Waddell for like services
4. Possible economies of scale as the Fund(s) grow larger
5. Costs to Waddell and its affiliates of supplying services pursuant to the management fee agreements, excluding any intra-corporate profit
6. Profit margins of Waddell and its affiliates from supplying such services

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My comments are included in the following paragraphs, organized into three topics: the process, the materials, and the findings of my evaluation of the proposed management fees and the contract renewal process.

## **Process**

The contract renewal process is defined to include the principal sequential steps by which the Disinterested Directors go about determining the reasonableness of the proposed management fees for the Funds in the context of their annual consideration of the proposed continuance of the Funds' respective Investment Management Agreements with WRIMCO. The 2007 contract renewal process from my perspective began with my retention and is anticipated to conclude at the Board meeting on August 14/15, 2007. As IFC, I participated throughout the contract renewal process.

The Board previously created the Special Compliance & Governance Committee (Compliance Committee) which is charged with responsibility for the preparatory work associated with the contract renewal process.

A calendar of due dates was prepared and agreed to by the Compliance Committee in order to ensure that the Disinterested Directors and Board receive all the necessary information for their contract renewal process in plenty of time to carefully deliberate and to ask for any follow-up information as needed.

The Disinterested Directors instructed independent legal counsel to the Disinterested Directors, Kirkpatrick & Lockhart Preston Gates Ellis LLP (K&L Gates), to prepare a letter requesting the necessary information from WRIMCO needed for the contract renewal process. This information was promptly and cooperatively provided by WRIMCO. The Lipper Company (Lipper), a division of Reuters, was asked to provide independently compiled comparative information about the Funds.

Lipper selected the peer group funds and sought input from the investment professionals at WRIMCO to ensure that Lipper understood the investment and distribution intricacies of the Funds.

The Compliance Committee met on July 12, 2007, with me and K&L Gates to discuss the information provided by WRIMCO and Lipper and to determine whether to request any additional information from WRIMCO prior to the August Disinterested Directors and Board meetings. At the Compliance Committee's direction, K&L Gates sent a supplemental request to WRIMCO for certain additional information which WRIMCO promptly and cooperatively provided prior to the August meetings.

As part of my responsibilities as IFC, I was requested to attend the Disinterested Directors' meetings of August 13-15, 2007, to present my evaluation of the proposed management fees for the Funds and to discuss with the Disinterested Directors my findings. On August 13, I met separately with the Disinterested Directors and K&L Gates to address these matters in preparation for the Board Meetings on August 14/15, 2007.

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## Materials

Materials refer to the informational materials which were prepared by all the parties involved in the contract renewal process in response to the data requested by the Disinterested Directors through the Compliance Committee and K&L Gates. As IFC, I reviewed all the data produced and found it to be responsive to the data requested by the Disinterested Directors. I also reviewed certain other materials that I considered relevant.

I used these materials to analyze trends and comparative information about the six factors discussed above. My review follows. I would note that, apart from these materials, the Disinterested Directors also received information throughout the year, some of which I reviewed, that may also be relevant to the contract renewal process.

### (1) Nature and Quality of Service

Under the AOD, I am obliged to comment on the investment performance of the Funds. The data for these comparisons are drawn from the Lipper materials discussed above. Performance information is based on April 30, 2007 data.

My experience is that fund directors should focus on longer-term performance during the contract renewal process (though they may choose to focus on shorter-term performance for other purposes such as portfolio evaluation). For this summary I have concentrated on 3-year performance in comparison to the “performance universe”, rather than on the more limited “performance group” because fund investors are more typically concerned with the objective and style of management than the size of the fund.

Generally speaking, the Funds reflect strong and improving performance in the 3- and 5-year periods. 5-year performance has 47% of the Funds in the first two quintiles of their performance universe and 11% in the 5th quintile. The 3-year figures upgrade to 53% of the Funds in the first two quintiles and only 8% in the 5th quintile.

The short-term 1-year period depicts a decline in the performance of a number of Funds, with only 33% of Funds falling in the first two quintiles, and 19% in the 5th quintile. The performance gap is more evident when comparing the 82% of Funds that are in the first three quintiles of performance for the 3-year period versus only 44% for the 1-year period.

In their supplemental request, the Disinterested Directors asked WRIMCO for an explanation for the decline in the 1-year performance of these Funds compared to their 3- and 5-year performance. In response to this request, WRIMCO advised that in general, short-term performance had improved through June 30, 2007. Additional performance updates to July 19 were provided by WRIMCO in response to the supplemental request from K&L Gates and still more updates to July 31 were provided at the August 13, 2007 meeting of the Disinterested Directors.

WRSCO maintains internal statistics to track service quality, which showed a decline in the quality of customer service provided to the Funds’ shareholders. The Disinterested Directors were informed about corrective actions to be taken in February 2007 and the quality has improved slightly through June 30, 2007.

### (2) Management Fees and Total Expense Comparison for Comparable Mutual Funds

Information for this metric is drawn from the Lipper analysis and is compared with a peer group for each Fund. Overall, more Funds have improved their comparative ranking of actual management fees in 2007 than declined. However, the majority of Funds have management fees above the median of their peer groups. In general the cause of the higher total expenses than the peer group are caused by non-management fees which are discussed under the findings paragraphs below.

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### **(3) Management Fees for Alternate Products**

WRIMCO manages money for many different types of clients besides mutual funds. These include corporate and municipal pension funds and investment pools for wealthy individuals. Collectively, these services are advertised as “separate accounts.” Several of these separate accounts are managed with the same investment objective and in the same style as some of the Advisors, Target and InvestEd Funds.

In most cases, the data provided by WRIMCO show that net management fees for the Funds are higher than that of the equivalent separate accounts. WRIMCO has explained these differences by reference to the different type of responsibilities borne by the mutual fund manager and the separate account manager. As IFC, I find these differences in fees reasonable.

### **(4) Costs to Waddell and its Affiliates of Supplying Services**

An important component of the profit margin and economies of scale discussion which follows is to ensure that the cost allocation procedures which exist are reasonable and consistent from year to year. WRIMCO uses multiple methodologies for allocation including assets, revenue, time, and square footage. The bases of allocation have remained consistent over the past several years. As IFC, I know of no better way to perform these allocations and find WRIMCO's allocation methodologies reasonable.

### **(5) Profit Margins from Supplying Management Services**

In general, under the Gartenberg ruling, independent directors of mutual funds are required to assess that the profitability of the advisory contracts to the advisor is not excessive. In addition, Lipper has provided a benchmark against which to evaluate the before-marketing, before-tax profitability of WRIMCO. This analysis places WRIMCO collectively at the bottom of Lipper peers. As a result, I do not find the margins to be excessive.

### **(6) Possible Economies of Scale**

Economies of scale occur when assets grow and a fund's fixed costs are spread over a larger asset base. Typically, fund managers share economies of scale by implementing break points, or scale-downs, in the structure of the management fee. As a general rule, fund directors establish break points prospectively at an asset level beyond the current asset level so that shareholders benefit from future asset growth. Lipper provided the Disinterested Directors with a comprehensive listing of break points in the Waddell Funds and compared the effective fee at a uniform asset level.

## **Findings**

After reviewing the materials (discussed above) which WRIMCO and Lipper have produced, I have summarized my findings for the purpose of discussion at the August 14/15, 2007 Disinterested Directors and Board meetings. These include four specific areas: Fund performance, non-management expenses, economies of scale, and total expenses.

### **Fund Performance**

While I found that the Funds have generally acceptable performance, certain Funds have either continuing or recent challenges. In my view, long-term performance issues should draw more attention as they reflect investment capabilities rather than short-term swings in the market. WRIMCO has addressed each of these Funds in its response to K&L Gates' initial letter. The Disinterested Directors may choose to monitor the Funds on the long-term performance list by a variety of possible approaches.

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Because the list of Funds with 1-year performance declines includes Funds whose 3-year and 5-year performance periods reflect superior performance, the shift should be noted by the Disinterested Directors. WRIMCO has provided the Disinterested Directors with an explanation of reasons for 1-year performance decline from the 3-year and 5-year trends together with a performance update for consideration at their August 14/15, 2007 meetings.

#### **Non-Management Expenses**

Waddell's business model leads to higher non-management expenses across the Funds in general. This business model targets the small to mid-level investor population, an approach that has resulted in many relatively small shareholdings. In their supplemental request to WRIMCO, the Disinterested Directors requested additional information about the possibility of charging an annual account fee on small shareholdings. WRIMCO has provided this information for consideration by the Disinterested Directors at their August 14/15, 2007 meetings.

#### **Economies of Scale**

In order to allow the shareholders to share in the economies of scale realized by the Funds, there are break points to the management fees for all Funds other than money market funds. The current break points of the Funds appear adequate in providing economies of scale with the possible exception of the Advisors Core Investment Fund, which is the largest in the complex.

In their supplemental request to WRIMCO, the Disinterested Directors asked for an analysis of an additional break point at the \$5 billion average asset level for this Fund. WRIMCO has provided this information and offered to institute an additional break point of 2.5 basis points at \$5.0 billion in assets. The Board will consider this offer at the August 14/15, 2007 meetings.

#### **Total Expenses**

If a Fund consistently demonstrates poor performance, higher than average expenses, or a combination of both, it may be appropriate for the Disinterested Directors to consider taking affirmative action. Possible actions include requesting more frequent reports, WRIMCO's providing more research support, WRIMCO's providing more portfolio management capability, seeking an outside sub-advisor, or requesting a voluntary fee waiver to reduce total expenses and/or improve performance.

In their supplemental request, the Disinterested Directors asked WRIMCO to analyze the potential impact of a voluntary waiver on two such Funds, the Advisor High Income Fund and the Target Small Cap Value Fund. WRIMCO provided this information in its supplemental response for consideration by the Boards at their August 14/15, 2007 meetings.

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In conclusion, as IFC, I have monitored the process, reviewed the materials, and find that:

- The contract renewal process conducted under the supervision of the Disinterested Directors has been careful, deliberate, and conscientious.
- The materials used during the contract renewal process were prepared by WRIMCO or Lipper. As IFC, I have reviewed the material used in this report. I have monitored the process under which Lipper selected the peers and produced its report. The materials were prepared without bias and in sufficient detail to facilitate meaningful decisions by the Disinterested Directors and the full Boards.
- The discussion which took place leading up to and at the Disinterested Directors and Board meetings was substantive and conducted in accordance with the best interests of the shareholders of the Funds.

Respectfully submitted,

A handwritten signature in black ink, reading "C. Meyrick Payne", written over a horizontal line.

C. Meyrick Payne,  
Independent Fee Consultant

August 13, 2007



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# Proxy Voting Information

## Proxy Voting Guidelines

A description of the policies and procedures Waddell & Reed Advisors Group of Mutual Funds uses to determine how to vote proxies relating to portfolio securities is available (i) without charge, upon request, by calling 1.888.WADDELL and (ii) on the Securities and Exchange Commission's (SEC) website at [www.sec.gov](http://www.sec.gov).

## Proxy Voting Records

Information regarding how each Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available on Form N-PX through Waddell & Reed's website at [www.waddell.com](http://www.waddell.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov).

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## Quarterly Portfolio Schedule Information

A complete schedule of portfolio holdings for the first and third quarters of each fiscal year will be filed with the Securities and Exchange Commission (SEC) on the Corporation's Form N-Q. This form may be obtained in the following ways:

- On the SEC's website at [www.sec.gov](http://www.sec.gov).
- For review and copy at the SEC's Public Reference Room in Washington, DC. Information on the operations of the Public Reference Room may be obtained by calling 1.800.SEC.0330.
- On Waddell & Reed's website at [www.waddell.com](http://www.waddell.com).

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## To All Traditional IRA Planholders:

As required by law, we are hereby providing notice to you that income tax may be withheld automatically from any distribution or withdrawal from a traditional IRA. A Fund is generally required to withhold taxes unless you make a written election not to have taxes withheld. The election may be made on the distribution/withdrawal form provided by Waddell & Reed, Inc. which can be obtained from your Waddell & Reed financial advisor or by submitting Internal Revenue Service Form W-4P. Once made, an election can be revoked by providing written notice to Waddell & Reed, Inc. If you elect not to have tax withheld you may be required to make payments of estimated tax. Penalties may be imposed by the IRS if withholding and estimated tax payments are not adequate.

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## The Waddell & Reed Advisors Funds Family

### Global/International Funds

Waddell & Reed Advisors Global Bond Fund

Waddell & Reed Advisors International Growth Fund

### Domestic Equity Funds

Waddell & Reed Advisors Accumulative Fund

Waddell & Reed Advisors Core Investment Fund

Waddell & Reed Advisors Dividend Income Fund

Waddell & Reed Advisors New Concepts Fund

Waddell & Reed Advisors Small Cap Fund

Waddell & Reed Advisors Tax-Managed Equity Fund

Waddell & Reed Advisors Value Fund

Waddell & Reed Advisors Vanguard Fund

### Fixed Income Funds

Waddell & Reed Advisors Bond Fund

Waddell & Reed Advisors Government Securities Fund

Waddell & Reed Advisors High Income Fund

Waddell & Reed Advisors Municipal Bond Fund

Waddell & Reed Advisors Municipal High Income Fund

### Money Market Funds

Waddell & Reed Advisors Cash Management

### Specialty Funds

Waddell & Reed Advisors Asset Strategy Fund

Waddell & Reed Advisors Continental Income Fund

Waddell & Reed Advisors Energy Fund

Waddell & Reed Advisors Retirement Shares

Waddell & Reed Advisors Science and Technology Fund

1.888.WADDELL

Visit us online at [www.waddell.com](http://www.waddell.com)

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. For a prospectus containing this and other information for the Waddell & Reed Advisors Funds, call your financial advisor or visit us online at [www.waddell.com](http://www.waddell.com). Please read the prospectus carefully before investing.



6300 Lamar Avenue  
P.O. Box 29217  
Shawnee Mission, KS 66201-9217

[www.waddell.com](http://www.waddell.com)

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